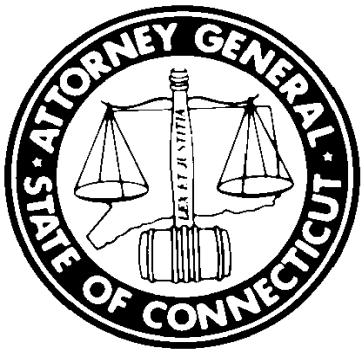


**DOCKET NO. : OAG 15-486-01**

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| **IN RE APPLICATION FOR ASSET PURCHASE** | **:** | **OFFICE OF THE ATTORNEY GENERAL** |
| **BY PROSPECT MEDICAL HOLDINGS, INC. OF** | **:** | |
| **EASTERN CONNECTICUT HEALTH NETWORK** | **:** | |
| **INC.** | **:** | **MAY 25, 2016** |

# PROPOSED FINAL DECISION

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## I. INTRODUCTION

The proposed asset purchase agreement between Eastern Connecticut Health Network, Inc., and its affiliates ("ECHN"), and Prospect Medical Holdings, Inc. ("PMH")(collectively, the "Applicants"), is the second Application by ECHN filed with the Office of the Attorney General (the "OAG") for its review pursuant to the Nonprofit Hospital Conversion Act, Conn. Gen. Stat. § 19a-486 et seq. (the "Conversion Act").

On June 4, 2014, ECHN submitted a proposed transaction with Tenet Healthcare Corp. ("Tenet") that was withdrawn by Tenet prior to the completion of the OAG's review under the Conversion Act. This Application comes 2 years afterwards.

The difficulties faced by hospitals in delivering quality healthcare services in a changing and increasingly challenging fiscal landscape have become, appropriately, a subject of national concern and debate. A number of forces in recent years have contributed to the financial challenges to local hospitals, including those in Connecticut. Against the backdrop of a changing regulatory and fiscal landscape at the federal and state level, the delivery of healthcare services remains a local issue of extreme importance to the communities in which nonprofit hospitals operate. These issues are no less true for ECHN than for any other community hospital or hospital system in Connecticut. It is in this context that ECHN has decided to sell substantially all of its assets to PMH. Its stated goal in making this decision is to ensure the continued existence of ECHN's facilities and services, to provide sufficient capital to enhance the facilities and services, and to integrate its operations with an established health care system that is prepared navigate the evolving health care system of the future. (Application of ECHN and PMH re a Proposed Asset Purchase Agreement, AG Docket 15-486-01, pp. 25-26; hereinafter, "App., p. __.)

Pursuant to the Conversion Act, the legislature has authorized the Attorney General to review and investigate proposed nonprofit to for-profit hospital transactions, to disapprove them if he finds that any of the criteria set forth in Conn. Gen. Stat. § 19a-486c(a) are not met, or to approve the transaction subject to any modifications or conditions that the Attorney General deems appropriate. Conn. Gen. Stat. § 19a-486b. Under the law, the Attorney General is required to assess both the procedural and financial fairness of the transaction and to protect and preserve the charitable assets of ECHN.

Contemporaneously with the OAG's review of the proposed Asset Purchase Agreement (the "APA"), the Office of Health Care Access, Department of Public Health ("OHCA"), has been reviewing the transaction to determine whether a certificate of need should be issued in this case and also whether OHCA's criteria in the Conversion Act have been fulfilled by the Applicants. In contrast to the Attorney General's focus, OHCA's review encompasses issues involving the impact of the proposed transaction on access to, and the quality of, health care in the ECHN service area.

As explained in detail below, we grant the Application with conditions necessary to conform the proposed transaction to the requirements of the Conversion Act. I would like to thank ECHN and PMH for their cooperation throughout this process. I would also like to thank the many witnesses, public officials, and members of the public who testified or commented on the proposed transaction in our proceedings. Last, I would like to thank my staff, Assistant Attorney General Henry Salton, head of the Health and Education Department, Assistant Attorney General Gary W. Hawes, and Paralegal Specialist Cheryl A. Turner for their diligent efforts on this matter.

## II. EXECUTIVE SUMMARY

### A. Standard of Review

Pursuant to the requirements of the Conversion Act, the OAG is required to review a proposed transaction for compliance with specifically articulated standards that were established by the legislature. § 19a-486c(a). In sum, these criteria require the OAG to make certain determinations: whether the nonprofit hospital's decision to sell its assets was reasonable, whether it chose the ultimate purchaser in an open and fair process, whether it received fair market value for its assets, whether the funds generated by the sale will be held by a charitable foundation that will use them for the promotion of healthcare in the nonprofit hospital's community, and whether use restrictions on any charitable asset held by ECHN will be preserved.[1]

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[1] Conn. Gen. Stat. § 19a-486c(a) provides in full:

The Attorney General shall deny an application as not in the public interest if the Attorney General determines that one or more of the following conditions exist:

(1) the transaction is prohibited by Connecticut statutory or common law governing nonprofit entities, trusts or charities;
(2) the nonprofit hospital failed to exercise due diligence in (A) deciding to transfer, (B) selecting the purchaser, (C) obtaining a fairness evaluation from an independent person expert in such agreements, or (D) negotiating the terms and conditions of the transfer;
(3) the nonprofit hospital failed to disclose any conflict of interest, including, but not limited to, conflicts of interest pertaining to board members, officers, key employees and experts of Waterbury Hospital, the purchaser or any other party to the transaction;
(4) the nonprofit hospital will not receive fair market value for its assets, which, for purposes of this subsection, means the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and in their own best interest, and with a reasonable time being allowed for exposure in the open market;
(5) the fair market value of the assets has been manipulated by any person in a manner that causes the value of the assets to decrease;
(6) the financing of the transaction by the nonprofit hospital will place the nonprofit hospital's assets at an unreasonable risk;
(7) any management contract contemplated under the transaction is not for reasonable fair value;

## B. The Proposed Transaction

ECHN and PMH propose an asset purchase whereby ECHN will sell substantially all of its assets to PMH or one or more affiliates of PMH. Substantially all of the assets of ECHN will be transferred to PMH in exchange for $105,000,000, subject to certain adjustments.[2] The adjustments include a Net Working Capital reconciliation, reductions for the value of ECHN liabilities assumed by PMH, and adjustments for the value of any ECHN joint venture interest not assigned or transferred to PMH. Pursuant to the APA, PMH will also commit to spend not less than $75,000,000 on capital items over five years. (App., p. 23.)

PMH will continue to operate both Manchester Memorial Hospital ("MMH") and Rockville General Hospital ("RGH") as acute care hospitals for at least three years after the

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(8) a sum equal to the fair market value of the nonprofit hospital's assets (A) is not being transferred to one or more persons to be selected by the superior court for the judicial district where the nonprofit hospital is located who are not affiliated through corporate structure, governance or membership with either the nonprofit hospital or the purchaser, unless the nonprofit hospital continues to operate on a nonprofit basis after the transaction and such sum is transferred to the nonprofit hospital to provide health care services, and (B) is not being used for one of the following purposes: (i) For appropriate charitable health care purposes consistent with the nonprofit hospital's original purpose, (ii) for the support and promotion of health care generally in the affected community, or (iii) with respect to any assets held by the nonprofit hospital that are subject to a use restriction imposed by a donor, for a purpose consistent with the intent of said donor; or

(9) the nonprofit hospital or the purchaser has failed to provide the Attorney General with information and data sufficient to evaluate the proposed agreement adequately, provided the Attorney General has notified the nonprofit hospital or the purchaser of the inadequacy of the information or data and has provided a reasonable opportunity to remedy such inadequacy.

[2] The Application indicated that the purchase price would be either $105 million or $115 million, depending on whether ECHN obtained an assumable loan to finance certain of its outstanding bond liabilities. At the public hearing on this transaction, it was confirmed that ECHN had not acquired the loan, and the purchase price was going to be $105 million.

transaction closes.[3] Each hospital will maintain a local advisory board, and substantially all of the employees of ECHN and its affiliates will be offered employment by PMH or its affiliates. (App., p. 24.)

In addition, PMH will ensure that MMH and RGH maintain ECHN's current policies on charity care and indigent care or will adopt other policies that are at least as favorable to the ECHN community. (App., p. 32.)

After the closing, ECHN will establish a new charitable entity ("New Foundation") that will receive the net proceeds of the transaction and the appropriate charitable gift assets held by ECHN.

### C. The Proposed Transaction Meets the Requirements of the Conversion Act Provided the Applicants Comply with the Attorney General's Modifications.

Based on our review of the record, all testimony provided at the public hearings, all exhibits provided pursuant to this review, and the standards set forth in § 19a-486c(a), we conclude that the proposed transaction meets the requirements of the Conversion Act, provided that ECHN and PMH comply with the modifications and conditions that are imposed herein.

#### *1. Findings and Conclusions*

First, we conclude that the process employed by ECHN in deciding to sell its assets to a for-profit healthcare services company reflects proper due diligence by ECHN's Board of Directors. The ECHN Board undertook an extensive process to explore potential strategic options and identify capital alternatives to address its weakening financial

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[3] At all times, a hospital must receive approval in the form of a Certificate of Need from OHCA before terminating inpatient or outpatient services offered by the hospital. See Conn. Gen. Stat. § 19a-638(a)(5).

position. The Board's efforts have been diligent and without conflicts of interests, and in our opinion, the Board has met their fiduciary obligations to ECHN.

Second, we conclude that ECHN will receive fair market value for its assets as a result of this transaction. Based primarily on the opinions of two independent financial valuation experts, the price negotiated for the sale of ECHN's assets equals or exceeds the price they would command in an open and competitive market.[4] This conclusion is buttressed by the fact that the process followed by the ECHN Board to select a purchaser was itself open and competitive.

Third, assuming compliance with the modifications and conditions set forth below, we conclude that the charitable assets of ECHN will be adequately protected and preserved after the proposed transaction closes. The charitable assets of ECHN, which have been held in trust for the public, will be held by the New Foundation and safeguarded for their specific charitable uses or to promote healthcare in the ECHN service area. We also conclude that a sum equal to the fair market value of ECHN's assets will be transferred to the New Foundation and will be restricted to charitable uses consistent with ECHN's

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[4] The nonprofit hospital conversion review process provides the OAG with the opportunity to have two separate, independent financial experts review the proposed transaction for compliance with the provisions of § 19a-486c(a). The first expert opinion is required by § 19a-486c(a)(2)(C), which provides that the nonprofit hospital obtain a fairness evaluation from an independent person expert in such agreement. ECHN hired Duff & Phelps, LLC, for these purposes, and its opinion is in the record. In addition, § 19a-486c(c) allows the Attorney General to contract with a financial expert to assist in the review of the nonprofit hospital's compliance with the provisions in § 19a-486c(a). Through an RFP process, the OAG retained the services of Navigant Consulting, Inc., to provide an additional independent analysis of the APA.

original purpose and for the support and promotion of healthcare generally in the ECHN community.[5]

*2. Modifications and Conditions*

The General Assembly has assigned the OAG significant responsibility and flexibility to modify the terms of the proposed transaction, if necessary, to fulfill the statutory mandates of the Conversion Act and—in particular—to fulfill the Attorney General's statutory charge to serve the public interest in the protection of gifts, legacies or devises for public or charitable purposes. Conn. Gen. Stat. § 3-125.

Consequently, although we approve the APA, that approval is contingent on certain modifications and conditions that must be made to the proposed transaction to ensure that the interests of the public and the requirements of the Conversion Act are met. These modifications and conditions, which are more fully described in Section V of this decision, include the following:

1. The Applicants must delete section 5.18(a) from the APA.

2. The Applicants shall notify the OAG in writing of the closing date of the Asset Purchase as soon as reasonably possible after the date has been set. If the closing date changes, the Applicants shall notify the OAG in writing of the change as soon as reasonably possible.

3. The Applicants must submit to the OAG, within 30 days of closing, fully executed copies of the Asset Purchase Agreement, without schedules.

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[5] As discussed in Section IV(H)(1) of this decision, the current estimate on the net proceeds to be transferred to the New Foundation is zero. In other words, after ECHN meets the obligations of its creditors and the provisions in the APA that require capital, there will be very little or nothing left over to transfer to the New Foundation.

4. As soon as reasonably possible after the Applicants have agreed to a Final Closing Statement of the transaction, the Applicants must provide the OAG a final accounting of the transaction that sets forth the balance sheets of ECHN immediately prior to and after the closing and that provides a net proceeds analysis.

5. After the closing, ECHN ("Legacy ECHN") shall hold and protect all charitable gift funds and any net proceeds from the Asset Purchase in its possession until they are transferred to the New Foundation or other charitable organization by order of a court of competent jurisdiction.

6. Legacy ECHN shall report quarterly to the OAG regarding (1) any and all income received by Legacy ECHN post-closing, including, but not limited to, Medicare and Medicaid reimbursements, income from charitable assets held by Legacy ECHN prior to transfer to the New Foundation, and any additional charitable funds received, and (2) all expenditures for Legacy ECHN.

7. When the requirements of the indemnity reserve have been fulfilled, and if there remain any funds in the indemnity reserve, they shall be considered ECHN's net proceeds and be treated accordingly.

8. Any income or unrestricted gifts received by Legacy ECHN post-closing shall be considered net proceeds.

9. The New Foundation shall include paragraph 14 as set forth in the draft Certificate of Incorporation in the final Certificate of Incorporation of the New Foundation, requiring Attorney General approval for changes to paragraphs 2, 5, 8, and 14 of the Certificate of Incorporation.

10. Legacy ECHN must present to the Superior Court, in coordination with the OAG, a petition for equitable deviation and approximation to transfer the unrestricted

endowments to the New Foundation and to change the charitable purpose of the unrestricted endowments to the charitable purpose of the New Foundation.

11. Legacy ECHN must, in coordination with the OAG, include the restricted endowments in the Superior Court petition for an equitable deviation order. With respect to the Trotter, Baker, and Schortman funds, Legacy ECHN must seek an order of approximation, in addition to one for equitable deviation, to adjust the funds' charitable purposes to ones that come as close as possible to the donor's original charitable intent.

12. Legacy ECHN must, in coordination with the OAG, include any special funds that still have money in them in the Superior Court petition for an equitable deviation and approximation order.

13. Legacy ECHN must, in coordination with the OAG and the third-party trustees, bring any third-party trusts in need of approximation before a court of competent jurisdiction for appropriate orders.

14. Legacy ECHN must, in coordination with the OAG, include the Life Insurance Policy in the Superior Court petition for an equitable deviation order.

15. Any net proceeds from this transaction, including the earnings therefrom, shall be transferred to and then held by the New Foundation and used only for the support and promotion of healthcare in the ECHN community. The net proceeds shall never inure to the benefit of the for-profit hospital. The net proceeds shall forever be held by the New Foundation for the purposes articulated in the New Foundation's Draft Certificate of Incorporation, unless and until a court of competent jurisdiction orders otherwise.

16. The net proceeds held by the New Foundation shall be considered an endowment fund, as that term is defined in the Connecticut Uniform Prudent Management of Institutional Funds Act, Conn. Gen. Stat. § 45a-535 et seq. ("CUPMIFA" ).

## III. PROCEDURAL HISTORY

On July 17, 2015, OHCA and the OAG received ECHN's certificate of need determination letter that set forth in summary fashion the terms of the APA between the Applicants.[6] Because the OAG determined that the APA required approval pursuant to § 19a-486 et seq., the OAG and OHCA on August 6, 2015, jointly sent the Applicants an Application Form regarding the APA.

The Applicants requested an extension of time to submit their Application, which both agencies granted, On October 13, 2015, the Applicants filed their Application for an Asset Purchase, which included 45 exhibits. Upon review of the Application, the OAG and OHCA determined that the Applicants' Application was not complete, and on October 30, 2015, it requested additional information from the Applicants. Before the Applicants had an opportunity to respond to the October 30 requests, the OAG and OHCA requested further information on November 12, 2015, related to the reports that PMH was up for sale. On November 23, 2015, the Applicants filed responses to the two sets of additional requests set forth by the OAG and OHCA. On December 11, 2015, OHCA issued one last set of completeness questions, to which the Applicant responded on December 24, 2015. On January 13, 2016, the OAG and OHCA determined that the Application was complete. In order to ensure the completeness of the record, the OAG and OHCA took administrative notice of the record in the Proposed Asset Purchase of Greater Waterbury Health Network, Inc., by Prospect Medical Holdings, Inc., OHCA Docket No. 15-31217-486, OAG Docket No. 15-486-02 (the "GWHN/PMH APA").

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[6] All docket documents referenced in this opinion can be found on the Attorney General's website: www.ct.gov/ag.

Pursuant to Conn. Gen. Stat. § 19a-486e, the OAG and OHCA conducted two public hearings regarding the proposed Asset Purchase, one in Manchester and one in Rockville. The Manchester public hearing was held on March 29, 2016, at 2:00 p.m. at the Manchester Country Club in Manchester, Connecticut. The Rockville public hearing was held on March 30, 2016, at 2:00 p.m. at the Elks Club in Rockville, Connecticut. No person sought intervenor status for the hearings. Conn. Gen. Stat. § 19a-486a(g). All parties submitted pre-filed testimony for the hearings.

The hearings were presided over by representatives from both the OAG and OHCA. Deputy Attorney General Perry Zinn Rowthorn served as the hearing office for the OAG. Also on the panel for the OAG were Assistant Attorney General Henry A. Salton and Assistant Attorney General Gary W. Hawes. Kevin Hansted served as the hearing officer for OHCA. Also on the panel for OHCA were Kimberly Martone, Director for OHCA, Steven W. Lazarus, Associate Health Care Analyst, and Carmen Cotto, Health Care Analyst.

At the hearings, all parties adopted their pre-filed testimony, and all exhibits on the table of record were entered into the record. At both hearings, the Applicants presented full testimony and were subject to cross-examination by OHCA and the OAG. In addition, the hearing panel heard approximately 20 public comments and accepted written public comments. Subsequent to the hearings, the OAG receive one additional public comment.

The Applicants filed late-filed exhibits with OHCA and the OAG on April 20, 2016.

## IV. FINDINGS OF FACT

Based upon the entire record of this Application, including all statements, testimony, and exhibits submitted by the Applicants, all public comments made at the hearing or submitted to the OAG in writing, the summary reports and exhibits submitted

by the independent financial experts, and the record in the GWHN/PMH APA, we find the following.

**A. Parties and other relevant corporate entities**

ECHN is a not-for-profit health care system that serves 19 towns in eastern Connecticut including Andover, Bolton, Coventry, Ellington, Manchester, South Windsor, Tolland, Vernon, Willington, Ashford, Columbia, East Hartford, East Windsor, Glastonbury, Hebron, Mansfield, Somers, Stafford, and Union (the "Service Area"). ECHN was formed in 1995 when Manchester Memorial Hospital and Rockville General Hospital joined as partners.

ECHN's care network consists of a number of wholly owned entities: MMH; RGH; ECHN ElderCare Services, Inc.; Visiting Nurse and Health Services of Connecticut, Inc. ("VNHSC"); A Caring Hand, LLC; Clinically Integrated Network of Eastern Connecticut, LLC; Connecticut Healthcare Insurance Company; ECHN Corporate Services, Inc.; Medical Practice Partners, LLC; ECHN Enterprises, Inc.; Haynes Street Property Management, LLC; Eastern Connecticut Medical Professionals Foundation, Inc.; and ECHN Community HealthCare Foundation, Inc.

ECHN has ownership interests in a number of community based services including the following joint ventures: Evergreen Endoscopy Center, LLC; WBC Connecticut East, LLC; Aetna Ambulance Service, Inc.; Metro Wheelchair Service, Inc.; Ambulance Service of Manchester, LLC; Connecticut Occupational Medicine Partners, LLC; Eastern Connecticut Physician Hospital Organization, Inc.; Northeast Regional Radiation Oncology Network, Inc.; Tolland Imaging Center, LLC; Haynes Street Medical Associates, LLC; Haynes Street Medical Associates II, LLC; Evergreen Medical Associates, LLC; and Evergreen Medical Associates II, LLC

PMH is a Delaware corporation with its principal place of business located in Los Angeles, California. PMH is a healthcare services company that owns and operates thirteen acute care and behavioral hospitals located in Rhode Island, Texas, and California. PMH also owns a network of specialty and primary care clinics in each of its regions. Through PMH's medical group segment, PMH manages the provision of physician services to approximately 260,000 patients in Southern California, South Central Texas, and Rhode Island through a network of approximately 8,900 physicians.

PMH currently owns the following hospitals: Los Angeles Community Hospital; Los Angeles Community Hospital at Bellflower; Los Angeles Community Hospital at Norwalk; Southern California Hospital at Hollywood; Southern California Hospital at Van Nuys; Southern California Hospital at Culver City; Foothill Regional Medical Center; Nix Health (four campuses); Roger Williams Medical Center (RI); and Our Lady of Fatima Hospital (RI).

PMH aligns its hospitals and physicians under a model referred to as Coordinated Regional Care ("CRC"). CRC provides for clinical integration among hospitals, physicians and other medical, social and community providers working closely with strategic partner health plans and other payers under a value-based, global risk reimbursement payment system to achieve the triple aim of improved patient care and experience, better patient health, and lower costs.

**B. ECHN's Fiscal Condition**

ECHN's mission has been impeded since 2001 by various factors, including reduced reimbursement from government payors, limited access to the capital required to improve infrastructure and to recruit and maintain needed physicians, and mounting pension liabilities.

Starting in 2001, when ECHN lost more than $10 million, capital investments had to be deferred and long-term debt and pension liabilities continued to grow. The pension funding reforms of 2006 and the market crash of 2008 created additional financial problems for ECHN. Although ECHN took numerous steps to mitigate the losses from these events, it was still unable to make significant capital investments. ECHN's plans to expand and introduce new programs to help recruit physicians were also put off.

In addition to the financial challenges that ECHN faced at that time, federal and state regulation changed the landscape for health care provider reimbursements and tax burdens. These increased financial burdens over the period of ten years led the Board to consider affiliation options.

**C. The Search for Solutions and Partners**

In 2011 the ECHN Board authorized the establishment of a workgroup to evaluate whether benefits would be realized by affiliating with another health care system, or whether ECHN would better serve the community by remaining an independent system (the "Partnering Workgroup"). To assist the Partnering Workgroup in its evaluation, ECHN engaged The Chartis Group, LLC ("Chartis"), a national healthcare consulting firm. In September of 2012, the Partnering Workgroup presented its initial findings to the ECHN Board. The Partnering Workgroup concluded that affiliation with a larger health system would better position ECHN to achieve its goals, and the Board agreed.

From November 2012 through April 2013, the Partnering Workgroup worked with Chartis to develop and conduct a request for proposal (RFP) process for potential partners. RFPs were mailed to three nonprofit health systems and three for-profit health systems. Based upon an initial review of four indications of interest and the conclusion that

affiliation appeared to be the best alternative, the ECHN Board created the Transaction Committee to thoroughly evaluate the proposals for affiliation.

After proper due diligence by the Transaction Committee and consideration of the Transaction Committee's recommendation by the ECHN Board, the Board selected a proposed joint venture between Yale New Haven Health System ("YNHHS") and Vanguard Health Systems, Inc. ("Vanguard") as the purchaser of ECHN. Before being able to negotiate a definitive Asset Purchase Agreement, however, ECHN learned that Tenet Healthcare Corporation ("Tenet") was going to acquire Vanguard. The Transaction Committee then performed its due diligence with respect to Tenet and recommended to the Board that ECHN continue with the contemplated transaction. The Board voted to approve the Transaction Committee's recommendation.

ECHN and Vanguard began the regulatory approval process in the summer of 2014 and submitted their application to the OAG and OHCA on October 24, 2014, and filed responses to completeness questions on November 25, 2014. On December 11, 2014, Tenet informed ECHN that it was withdrawing its application for the acquisition of ECHN citing the proposed regulatory conditions that had been placed on its Application to form a joint venture with the Greater Waterbury Health Network, Inc. ("GWHN").[7]

While waiting to see if Tenet might return to Connecticut to pursue its acquisition of ECHN, the Board reaffirmed the need for ECHN to partner. To that end, and with the guidance of The Chartis Group, the Transaction Committee conducted a second RFP process. On February 6, 2015, RFPs were sent to the four systems that had expressed

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[7] On December 11, 2014, Tenet withdrew its applications with respect to the Greater Waterbury Health Network, Inc., Saint Mary's Health System, Inc., Eastern Connecticut Health Network, Inc., and Bristol Hospital and Health Care Group, Inc.

interest in partnering with ECHN and to two additional out-of-state systems that had approached ECHN with interest in an affiliation. ECHN received three responses.

While considering these proposals, two teams of Transaction Committee members and ECHN executives made visits to Los Angeles to tour PMH's management services organization that supports its independent physician practice associations (IPAs) and hospitals for risk-based contracting and population health management. The groups also toured Prospect's Southern California Hospital in Culver City and met with and interviewed representatives in the areas of governance, medical staff leadership, and administration from Prospect's Los Angeles Coordinated Regional Care Market.

Members of the Transaction Committee and ECHN executives also visited CharterCARE Health Partners' Roger Williams Medical Center in Providence, Rhode Island. CharterCARE Health Partners is PMH's coordinated regional care network comprised of Roger Williams Medical Center, Our Lady of Fatima Hospital, a skilled nursing facility, a regional cancer center, a rehabilitation center, a community primary care center, a home health services company, an IPA, and a physician group practice based in Providence.

Based upon their due diligence with respect to all the proposals, the Transaction Committee chose to negotiate only with PMH in finalizing a proposed asset purchase agreement. After some of the open items in PMH's proposed APA were addressed through negotiations, the Transaction Committee unanimously recommended to the ECHN Board that it accept PMH's proposal to acquire substantially all of the assets of ECHN. After review, the Board unanimously approved the APA in substantially the form presented to them. The draft APA was then submitted to ECHN's Corporators for consideration. The

ECHN Corporators approved the draft APA on July 29, 2015, with 165 voting in favor of the transaction and 4 against.

**D. The Proposed Transaction**

PMH or a PMH designated subsidiary (hereinafter, "PMH") will purchase substantially all of the assets of ECHN, including the properties, assets and businesses of, or ownership interests of ECHN affiliates. PMH will also purchase ECHN's interests in its or its affiliates' joint ventures.[8]

PMH will acquire real property, leased property, equipment, accounts receivable, and net working capital (*i.e.*, non-cash current assets less the value of all current liabilities) of ECHN and the ECHN affiliates. PMH will assume several key liabilities, including ECHN's unfunded pension liabilities, ECHN's health benefit plan for retirees, ECHN's captive insurer liabilities (*i.e.*, Connecticut Healthcare Insurance Company), and ECHN's workers' compensation obligations.

PMH will exclude some current ECHN liabilities that will then remain the responsibility of ECHN's residual corporation following the transaction ("Legacy ECHN"). For example, PMH will not assume liabilities that could arise from lawsuits or tax settlements based on pre-closing activities. ECHN will exclude certain of its assets from the purchase, including certain cash and cash equivalents of ECHN; all short-term and long-term investments, but excluding ECHN's investment interests in the joint ventures; board-designated, restricted, and trustee-held or escrowed funds (such as funded depreciation, debt service reserves, self-insurance trusts, working capital trust assets, and

[8] The assets of ECHN Community HealthCare Foundation, Inc., will not be included in the assets purchased by PMH.

assets and investments restricted to use), beneficial interests in charitable trusts, and accrued earnings on all of the foregoing.

PMH will pay $105,000,000 subject to the Net Working Capital reconciliation, minus the amount of certain ECHN liabilities assumed by PMH (*e.g.* ECHN's unfunded pension obligations, captive insurer liability, capital leases, and the workers' compensation liability), minus asbestos abatement liability of up to $1,000,000, and minus, in the event that ECHN is unable to assign and transfer to PMH ECHN's interest in an ECHN joint venture, a dollar amount to be fixed in advance for each ECHN Joint Venture.

ECHN's proceeds from the APA will first be used to settle all of ECHN's bond liabilities and all of ECHN's other indebtedness not otherwise assumed by PMH. The remaining proceeds will next be used to fund an indemnity reserve for a period of at least three years (the "Reserve Period") following the closing of the transaction for payment of ECHN liabilities to PMH that may arise post-closing. Any proceeds that remain after settling bond liabilities, settling other indebtedness, and funding the indemnity reserve will be held by the residual ECHN corporation to be used for post-closing liabilities and wind down of operations. After expiration of the Reserve Period, any funds remaining in the Reserve and not used to pay claims will be transferred as directed by the Office of the Attorney General of the State of Connecticut with the expectation that such funds will be transferred to a nonprofit foundation and used to support charitable health related efforts in the ECHN Service Area.

After closing, PMH/ECHN, will develop a strategic capital plan with respect to the Hospital Businesses. PMH has committed to spend within five years of the closing not less than $75,000,000 (the "Commitment Amount") for the benefit of the Hospital Businesses and for the benefit of the Service Area of MMH and RGH. These expenditures may include:

(i) capital projects, including routine and non-routine capital expenditures for the improvement of ECHN's facilities; (ii) development, expansion, or acquisition of a department, program, service or facility; (iii) upgrades or renovations generally; (iv) deferred maintenance items; and (v) capital expended in support of the recruitment of the hospitals' medical staff located in the hospitals' Service Area.

PMH will offer employment as of the closing to substantially all employees of ECHN and its affiliates who work at the hospital businesses, including employees on approved leaves of absence as of the closing. PMH will offer the hired employees salaries that are equal to their salaries as of the closing date and benefits packages that are comparable to those offered to similarly-situated employees at other hospitals operated by PMH. PMH will assume and honor ECHN's (and its affiliates') collective bargaining agreements.

For at least three years after the closing of the transaction, PMH will continue operating MMH and RGH in their current locations as acute care hospitals with emergency departments. Also, for at least three years after the closing of the transaction, PMH will maintain an ownership interest in ECHN's current post-acute care continuum of care network and require any wholly owned entity involved with such post-acute care continuum of care network to maintain appropriate service lines during such three-year period. PMH will also ensure that each Hospital maintains and adheres to ECHN's current policies regarding charity care, indigent care, community volunteer services and community benefits (or adopts other policies that are at least as favorable to the community as ECHN's current policies).

PMH will maintain and support financially ECHN's University of New England medical student and other health professions teaching programs, as well as ECHN's graduate medical education programs, while operating at a level not to exceed the Indirect

Medical Education and Direct Graduate Medical Education caps that may be established by the Centers for Medicare and Medicaid Services.

Following the closing, MMH and RGH will each maintain an advisory board made up of community representatives, physicians on the respective hospital's medical staff, and the Chief Executive Officer of the respective hospital (the "Local Board"). Among other things, the Local Board will serve as a resource for PMH with respect to PMH's investment of the capital commitment, assist with maintenance and implementation of a strategic business plan for the Hospitals, make recommendations for medical staff credentialing at the Hospitals, review and make recommendations regarding the quality assurance program at the Hospitals, and assist in issues relating to accreditation for the Hospitals.

ECHN agrees to maintain an indemnity reserve in the amount of $4,500,000 for a period of three years after the closing date so that PMH will have meaningful recourse against ECHN for any potential indemnification claims. If certain claims arise during this three year period, the indemnification reserve may be extended, but not beyond the fifth anniversary of the closing date. The indemnification obligations of PMH's subsidiary buyer to ECHN are guaranteed by PMH.

**E. The Charitable Assets of ECHN**

Throughout its history, ECHN has received numerous charitable gifts, legacies and devises from generous individual donors and community fundraising efforts.[9] These gifts were given to one of four entities: Manchester Memorial Hospital, Rockville General

[9] Manchester Memorial Hospital, Rockville General Hospital, the ECHN Community HealthCare Foundation, Inc., and ECHN Eldercare Services, Inc., hold all of ECHN's charitable funds. For the sake of our discussion, we will refer generally to funds as being held by ECHN.

Hospital, the ECHN Community HealthCare Foundation, Inc. (the "ECHN Foundation"), and ECHN Eldercare Services, Inc. As part of its Application, ECHN provided information and documentation of the charitable trusts and gifts of which its hospitals are the beneficiary or in which its hospitals claim an interest. Specifically, it provided copies of the gift documents themselves (Exhibit Q11-2 of the Application) and a spreadsheet (the "Gift Document Analysis"; Exhibit Q11-1 of the Application) that included a narrative description of each charitable gift, succession language where applicable, the name of the trustee of each gift, and a designation of whether each gift was an endowment and restricted as to purpose. The value of all the charitable gifts as of March 30, 2016, was $23,116,006.

The OAG reviewed the Gift Analysis provided by ECHN for accuracy and completeness. In addition, the OAG questioned ECHN on the due diligence undertaken to identify all of the underlying gift documents for the charitable funds. The OAG is satisfied that ECHN has identified all the charitable funds in its possession and has met its burden to produce the underlying gift documents for each fund.

*1. Manchester Memorial Hospital*

We first catalog the charitable funds held by MMH.

*a. MMH Unrestricted Endowments*

Unrestricted endowments are charitable funds, the original gift instrument of which specifies that the sum donated is to be held and preserved as "principal," as a "fund," as an "endowment," or directs that the sum be held and invested, or added to an existing endowment fund, and further specifies that the annual income earned on said principal be

applied to the general purposes of the hospital.

The following gifts are unrestricted endowments held by MMH:[10] Blish (11-1.1), Carpenter (11-1.2), Chapman (11-1.3), Coates (11-1.4), Dart (11-1.5), House (11-1.6), Porter (11-1.7), Rice (11-1.8), Stanley (11-1.9), Strant (11-1.10), Strickland (11-1.11), Ellis (11-1.12), Pinney (11-1.13), Hohenthal (11-1.14), Cheney (11-1.15), Campbell Cheney (11-1.16), Dewey (Albert) (11-1.17), Dewey (Jane) (11-1.18), Gardner (11-1.19), Piper 1 (11-1.20), and Piper 2 (11-1.21). As of March 31, 2016, the total value of these restricted endowments was $8,558,001.

*b. MMH Endowments Restricted to Purpose*

Endowments Restricted to Purpose are charitable funds, the original gift instrument of which specifies that the sum donated is to be held and preserved as "principal," as a "fund," as an "endowment," or directs that the sum be held and invested, but the purposes to which the income may be put are restricted and cannot be applied to the general purposes of the hospital. One of the most common restrictions on hospital gifts directs the funds to be used for free bed care, i.e., to use the funds on behalf of persons unable to pay for the hospital services provided (a "Bed Fund"). MMH holds six Bed Funds: Drake (11-1.22), Hills Preston (11-1.23), Boynton (11-1.24), Loomis (11-1.25), Cheney Disher (11-1.26), and Keeney (11-1.27). MMH's Bed Funds are valued at $541,728 as of March 31, 2016. MMH holds two additional endowments restricted to purpose: Trotter (11-1.28) (for the benefit of children patients) and Wright (11-1.29) (for the benefit of the fight against cancer). The Trotter and Wright funds have a total value of $6,629 as of March 31, 2016.

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[10]The numbers following the gifts represent the fund number as identified in the Application, Exhibit Q11-1.

*c. MMH Miscellaneous Funds*

MMH has interests in two additional funds: Damato (11-1.30) and a life insurance policy (11-1.31). The Damato estate is an unrestricted gift, with an undetermined value at this time. The date of final distribution is unclear at this time due to the complexity of liquidating the assets in the estate, particularly the real estate assets.

The current value of the life insurance policy is $58,147.

The total value of gifts held by MMH as of March 31, 2016, is $9,164,514.

*2. Rockville General Hospital*

*a. RGH Unrestricted Endowments*

The following gifts are unrestricted endowments held by RGH: Bissell (11-1.32), Maxwell (11-1.33), Goodale and Risley (11-1.34), United German Society (11-1.35), Prescott (11-1.36), Maxwell (11-1.37), Smith (11-1.38), Doss (11-1.39), Wood (11-1.40), Henry (Maud) (11-1.41), Henry (Lenore) (11-1.42), Charter (11-1.43), Bilson (11-1.44), Belding (11-1.45), Bradley (11-1.46), Britton (11-1.47), Sprague (11-1.48), Doane (11-1.49), Keney (11-1.50), American Red Cross (11-1.51), Talcott (11-1.52), Maxwell (11-1.53), Metcalf (11-1.54), and Henry (11-1.55), As of March 31, 2016, the total value of these unrestricted endowments was $8,989,027.

*b. RGH Endowments Restricted to Purpose*

RGH holds eight Bed Funds: DAR (11-1.56), Prescott (11-1.57), Phelps (11-1.58), Winchell-Foster (11-1.59), Tucker (11-1.60), Whitlock (11-1.61), Sykes Phelps (11-1.62), and Kress (11-1.63). RGH's Bed Funds are valued at $288,358 as of March 31, 2016. MMH holds two additional endowments restricted to purpose: Baker Family (11-1.64) (for the upkeep and physical maintenance of the Hospital) and Schortmann (11-1.65) (for the operation or improvement of the maternity and nursery facilities of the Hospital). The

Baker Family and Schortmann funds have a total value of $278,769 as of March 31, 2016.

*c. RGH Miscellaneous Funds*

RGH has interests in two charitable gift annuities, but one of the two joint annuitants has now lived beyond the projected life expectancy. The annuities are now contractual liabilities of the Hospital, and ECHN is looking to terminate these arrangements at fair value. Names of the original grantors have been withheld. (11-1.77 and 11-1.78).

The total value of gifts held by RGH as of March 31, 2016, is $12,374,200.

*3. ECHN Community Healthcare Foundations, Inc.*

*a. Endowments*

The ECHN Foundation holds several funds for the benefit of MMH and RGH. With respect to MMH, the ECHN Foundation holds the following unrestricted endowments: Burgess (11-1.79), St. Laurent (11-1.80), and Piper (11-1.81). The total value of these three gifts as of March 31, 2016 is $1,285,023. With respect to RGH, the ECHN Foundation holds the follow endowments with restricted purposes: Maxwell (11-1.82) (for the benefit of the normal maintenance and repair of the Maxwell Home and its grounds) and Risley Scholarship (11-1.83) (for the benefit of nurses' continuing education). The total value of these two funds as of March 31, 2016, is $282,289. The total value of funds held by the ECHN Foundation is $1,567,312.

*b. Special Purpose Funds*

The ECHN Foundation holds a dozen funds that are fully expendable but have restricted purposes. If ECHN does not deplete these funds for their intended purpose prior to the closing, they will remain with Legacy ECHN to be transferred to the New Foundation or another charitable organization to fulfill the fund's intended charitable purpose. The

special funds are as follows: Avis Lloyd Tree of Life (11-2.1), Team Towanda (11-2.2), Employee Care (11-2.3), Breast and Cervical Cancer (11-2.4), Adult Ambulatory Administrative Education and Development (11-2.5), Purcell Golf Classic Trophies (11-2.6), Woodlake at Tolland Wishes Program (11-2.7), Van (11-2.8), Risley (11-2.9), Fields (11-2.10), and Woodlake: Resident Council (11-2.11). The total value of the special funds held by the ECHN Foundation is $9,979.

*4. Trusts Held by Outside Trustees*

All the charitable funds identified above are held and administered by ECHN. There is a series of charitable gift funds, however, that are not held by ECHN but by outside trustees and for which ECHN holds the beneficial interest.

*a. For the Benefit of MMH*

There are seven funds held by outside trustees for the benefit of MMH: Barton (11-3.1), Clark (11-3.2), Morton (11-3.3), Robertson (11-3.4), Crowell (11-3.5), Ferguson (11-3.6), and Rogers (11-3.7).

*b. For the Benefit of RGH*

There are three funds held by outside trustees for the benefit of GWH: Dillon (11-3.8), Moxon (11-3.9), and Barton (11-3.10).

The market value of the corpus of the trusts held by outside trustees for the benefit of ECHN was $10,903,971 on March 31, 2016.

## V. LEGAL ANALYSIS AND REQUIRED MODIFICATIONS

Conn. Gen. Stat. § 19a-486a *et seq*. directs that any nonprofit hospital that enters into an agreement to transfer a material amount of its assets or operations with an entity operated for profit must first obtain the approval of OHCA and the OAG. Any agreement made without these approvals is deemed void.

Conn. Gen. Stat. § 19a-486c mandates that the Attorney General shall disapprove a proposed sale of a nonprofit hospital to a for-profit entity as not in the public interest if he determines that one or more of nine conditions exist.[11] The Conversion Act, however, allows the Attorney General to approve an application while setting forth modifications and/or conditions that would bring the proposed transaction into compliance with the conditions in § 19a-486c. What follows, therefore, is the OAG's analysis and discussion of the statutory criteria in § 19a-486c and the modifications and conditions to the Asset Purchase Agreement that are necessary to satisfy those criteria.

**A. The transaction is not prohibited by Connecticut statutory or common law governing nonprofit entities, trusts or charities.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(1), the Attorney General shall disapprove a proposed agreement if he determines that the transaction is prohibited by Connecticut statutory or common law governing nonprofit entities, trusts, or charities. Subject to the modifications and conditions set forth in Section II(D) of this decision, we conclude that the Asset Purchase is not prohibited by statutory or common law governing nonprofit entities, trusts, or charities.

**B. ECHN exercised due diligence.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(2), the Attorney General is required to determine whether the nonprofit hospital exercised due diligence in four distinct areas. The phrase "due diligence" is not defined by the Conversion Act, but Black's Law Dictionary (6th ed. 1990) defines it as: "Such a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man

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[11] See footnote 1.

under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case." In short, therefore, we review the level of care and prudence that the ECHN Board exercised in deciding to enter into the APA with PMH.

Based upon our and our expert's review of the materials presented as a part of the ECHN and PMH Application and the testimony given at the public hearings, it is clear that ECHN undertook an extensive and diligent process to explore strategic options and to identify a capital alternative that would enable it to address its difficult financial position. ECHN has faithfully pursued its mission to ensure quality healthcare for the Manchester and Rockville communities. As noted in the findings of fact, ECHN's efforts began in 2011 with the establishment of the Partnering Workgroup and the hiring of Chartis. Every step that followed in ECHN's pursuit of a capital partner was reviewed by a Transaction Committee, the Board of ECHN, and for significant issues, the ECHN Corporators. ECHN pursued discussions with multiple strategic partners, evaluated a range of transaction structures, and explored multiple strategies to access capital. Our specific due diligence findings follow.

*1. ECHN exercised due diligence in deciding to participate in the APA.*

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(2)(A), the Attorney General shall disapprove a proposed agreement if he determines that the nonprofit hospital failed to exercise due diligence in deciding to transfer its assets. The record reveals a compelling case for ECHN to transfer substantially all of its assets as a means to assure the long-term viability of MMH and RGH.

ECHN engaged in a decision-making process that was reasonable, thoughtful, and thorough. In short, its ultimate decision to transfer substantially all of its assets to PMH demonstrated due diligence under the circumstances. As noted in the findings of fact,

ECHN pursued a range of strategic initiatives to address the hospital's financial constraints, aging facilities, and limited access to capital. Without a feasible alternative available, the ECHN Board reasonably concluded that the sale of its assets to another hospital system was an appropriate solution for long-term viability of the hospitals. We, therefore, conclude that ECHN exercised due diligence in deciding to transfer substantially all of its assets as a part of the APA.

*2. ECHN exercised due diligence in selecting PMH for the Asset Purchase.*

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(2)(B), the Attorney General shall disapprove a proposed agreement if he determines that the nonprofit hospital failed to exercise due diligence in selecting the purchaser. Based on the record in this case, ECHN has established that it exercised due diligence in selecting PMH to purchase substantially all of its assets.

The full history of ECHN's search for a capital partner is described in detail in the findings of fact. With respect to the initiative that resulted in the APA with PMH, however, we conclude that ECHN took appropriate and considered steps to identify the best situation for MMH and RGH. ECHN conducted a second RFP process with the guidance of Chartis, delivering the RFP to six potential partners, including PMH. By mid-March in 2015, ECHN had received three proposals. The Transaction Committee reviewed the proposals and evaluated each in light of the selection criteria approved by the Board, including quality of care. The Transaction Committee then performed its due diligence with respect to the potential partners, reviewing financial, quality, and corporate compliance data for each of the potential partners. With respect to PMH, members of the Transaction Committee visited PMH's California and Rhode Island operations.

On June 22, 2015, the Transaction Committee voted unanimously to recommend acceptance of the PMH proposal. On June 25, 2015, the Board held a retreat during which it considered the proposals received from the potential partners, ultimately voting in favor of the PMH proposal. The draft APA was then sent to ECHN's Corporators for their review, who approved entering the transaction in overwhelming numbers.

On or about the beginning of February 2016, after the hospital conversion application process had begun with the OAG and OHCA, ECHN learned that recent Medicare and Medicaid surveys at two of PMH's California hospitals (Los Angeles Community Hospital and Southern California Hospital at Culver City) had resulted in findings of Immediate Jeopardy by regulatory authorities at both hospitals. After learning about these determinations, ECHN appointed a Quality Evaluation Team that looked into the Immediate Jeopardy findings to determine whether the findings were sufficiently substantial to call into question PMH's fitness as a transaction partner. After a thorough investigation, the Quality Evaluation Team determined that "the recent compliance issues present isolated challenges that [PMH] has demonstrated a strong commitment to remediate through corrective actions that are already in progress." (Testimony of Joy Durin, Vice Chair, Board of Trustees, Chair, Transaction Committee, p. 3350.) This conclusion was shared with the Transaction Committee, approved by them, sent to the Board, and the board approved the recommendation. In addition to the investigation performed by the Quality Evaluation Team, ECHN negotiated a Quality Assurance Commitment with PMH that requires PMH to maintain ECHN's quality programs for at least two years following the closing of the transaction. In addition, it requires PMH to maintain quality assurance and performance improvement programs that are consistent with industry best practices and quality improvement programs as currently implemented

in PMH's Rhode Island facilities. Based on the evidence presented to the OAG, we conclude that ECHN exercised due diligence in selecting PMH as its partner for the APA and in confirming that selection after PMH's Immediate Jeopardy findings came to light.

*3. ECHN exercised due diligence in obtaining a fairness evaluation.*

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(2)(C), the Attorney General shall disapprove a proposed agreement if he determines that the nonprofit hospital failed to exercise due diligence in obtaining a fairness evaluation from an independent person expert in such agreements.

ECHN's fairness evaluation was conducted by Duff & Phelps, LLC ("Duff & Phelps"), who had no previous material relationship with any party to the transaction, except for having previously provided an independent fairness opinion regarding the proposed ECHN/Tenet transaction. In addition, no portion of Duff & Phelps fee was contingent on the conclusion expressed in the fairness opinion or on the successful consummation of the transaction.

Therefore, we conclude that the ECHN Board exercised due diligence in obtaining a fairness evaluation regarding the terms of the proposed APA from an independent entity expert in such agreements.

*4. ECHN exercised due diligence in negotiating the terms and conditions of the APA.*

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(2)(D), the Attorney General shall disapprove a proposed agreement if he determines that the nonprofit hospital failed to exercise due diligence in negotiating the terms and conditions of the transfer.

Our review of the transaction leads us to conclude that ECHN exercised due diligence in negotiating most of the terms and conditions of the APA. As discussed below, we believe ECHN will receive at least the fair market value for its assets. In addition,

ECHN negotiated a capital commitment of $75 million for the for-profit ECHN hospital system ("PMH/ECHN") over the next five years. Other highlights include PMH's retention of ECHN employees, the assumption by PMH of the unfunded pension liabilities, the formation of local advisory boards for each hospital, and PMH's commitment to maintain ECHN's current policies regarding charity care, indigent care, and community benefits.

One provision in the APA, however, stands out as unreasonable in light of the details of the transaction as a whole. Section 5.18 of the APA concerns PMH's $75 million capital commitment, and subsection (b) of this section provides as follows:

> *Notwithstanding the above capital commitment, in the event that any Legal Requirement is enacted or imposed by the State of Connecticut after Closing that discriminates against, or adversely affects a disproportionate number of for-profit hospitals and causes the Hospital Businesses to suffer a decline in EBITDA of more than ten (10) percent in any year, on a consolidated basis, then, Buyer may defer in its discretion the above capital commitment beyond the five-year period provided in Section 5.18(a) but only to the extent of the decline in EBITDA resulting from the discriminatory Legal Requirement. To the extent Buyer desires to defer the capital commitment as a result of a discriminatory Legal Requirement, (i) Buyer shall make available to the public reasonably detailed information to support Buyer's position (provided that in no event shall Buyer be required to disclose any information that is subject to a confidentiality or other similar arrangement) and (ii) Buyer shall consult with the Local Board to determine an alternate mutually agreeable timeframe to complete the capital commitment that is reasonable and appropriate in light of the changed circumstances caused by the new Legal Requirement.*

(Exhibit Q3-2, Asset Purchase Agreement, p. 182.)

Although PMH may wish to hedge against future changes in the legal landscape, it cannot hold the ECHN capital investment hostage by such a provision. To do so would render the $75 million capital commitment – a key term of the deal – subject to delay upon the future actions of legislators. Put differently, we believe that PMH must bear the risk of future legislation and not PMH/ECHN. The $75 million capital commitment is indeed a

commitment, and the deadline by which it must be spent must be honored. Accordingly, as a condition to approval of the proposed transaction, the OAG requires that the Applicants modify the APA by deleting section 5.18(b) from the APA.

### C. ECHN Disclosed Any and All Board Member, Officer, Key Employee, and Expert Conflicts of Interest With Respect to the APA.

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(3), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that the nonprofit hospital failed to disclose any conflict of interest, including but not limited to, conflicts of interest pertaining to board members, officers, key employees, or experts of ECHN, the purchaser, or any other party to the transaction.

The Applicants provided the OAG with individual conflict of interest statements for each relevant individual (board member, officer, etc.) employed by ECHN, its experts, and PMH. Each individual was required to respond to individual questions regarding possible financial, beneficial, and/or employment related conflicts of interest. If any of the questions were answered with anything other than an unqualified "No," the individual was required to attach an explanation to the statement. These statements were reviewed by the OAG and Navigant.

Section 5.03 of the APA requires PMH "to employ as of the Closing Date substantially all employees of Seller and its Affiliates who work at the Hospital Businesses." (Exhibit Q3-2, Asset Purchase Agreement, p. 171.) Therefore, employees of ECHN, including ECHN's officers and key employees, have been offered employment with PMH as a part of the transaction. This general provision, however, does not create a conflict of interest for the purposes of this statutory element.

After a careful review of all the conflict of interest responses, there do not appear to be any conflicts of interest with this proposed transaction that exist outside of the APA itself. In addition, no intervenor or other participant in the proceeding has offered any credible evidence that any conflict existed at any time during the negotiation of the APA. Accordingly, we conclude that no conflicts of interest exist that would require disapproval of the APA.[12]

**D. ECHN will receive fair market value for its assets.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(4), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that the nonprofit hospital will not receive fair market value for its assets. For purposes of the Conversion Act, "fair market value" is defined as

> the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and in their own best interest, and with a reasonable time being allowed for exposure in the open market.

Conn. Gen. Stat. § 19a-486c(a)(4).

PMH has agreed to pay $105 million as compensation for substantially all of ECHN's assets. Two independent financial experts have reviewed the transaction to determine whether ECHN will receive fair market value for its assets, and both have concluded that the purchase price of $105 million equals or exceeds the fair market value of ECHN's assets.

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[12] ECHN's process to ensure that no individual with a conflict of interest voted on this transaction was very thorough. Indeed, ECHN created a Conflict of Interest Task Force specifically for this purpose. The Board voted on all transaction-related resolutions pursuant to a two-step process to help ensure that any personal interest in any of the transaction decisions made would be eliminated.

As discussed above, ECHN retained Duff & Phelps to provide it with an independent valuation and fairness opinion regarding the transaction.[13] Duff and Phelps considered three principal methods of valuation: discounted cash flow, guideline company, and M&A transaction. These approaches indicated that the fair market value of ECHN was well below the price PMH had agreed to pay for substantially all of the assets of ECHN. Duff & Phelps's mid-point estimate for ECHN, without the joint ventures, was $57.1 million. Duff & Phelps used a market and a capitalized cash flow approach to estimate the value of ECHN's joint ventures as $13.1 million. The total estimated fair market value for ECHN as determined by Duff & Phelps, therefore, is $70.2 million. As such, Duff and Phelps was able conclude in its fairness opinion that "the consideration to be received by [ECHN] in the Proposed Transaction is fair from a financial point of view to the Company." (Exhibit Q7-4, Duff & Phelps' Fairness Opinion Letter, p. 836.)

Navigant was hired though an RFP process to be the OAG's financial expert for the purposes of reviewing this transaction. Navigant has also concluded that ECHN will receive fair market value for the transfer of its assets.[14] In performing its fair market value analysis, Navigant considered the three generally accepted approaches to value: income, market, and cost. Navigant valued ECHN's assets as value-in-continued use, as part of a going concern. Based upon these valuation methods, Navigant estimated the total fair market value of ECHN, including the joint ventures, to be $63,750,000. Navigant's

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[13] The OAG has previously concluded that ECHN exercised due diligence in selecting Duff & Phelps to perform the independent fairness evaluation on its behalf.

[14] Navigant's report is attached hereto as Exhibit A.

analysis supports the conclusion that ECHN will receive fair market value for the transfer of its assets.

Based on the independent financial assessments of two respected hospital valuation firms, and the lack of evidence to the contrary in the record, we conclude that ECHN will receive fair market value for its assets.

**E. The fair market value of the assets has not been manipulated by any person in a manner that causes the value of the assets to decrease.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(5), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that the fair market value of the nonprofit hospital's assets has been manipulated by any person in a manner that causes the value of the assets to decrease.

Navigant performed reviews of ECHN's financials and assets and found no indication that the fair market value of ECHN's assets had been manipulated. No intervenor or other participant in the proceeding has offered any evidence that the fair market value of ECHN's assets has been manipulated to artificially lower the payment price. Based on these factors, we conclude that the fair market value of ECHN's assets has not been manipulated.

**F. The financing of the transaction will not place ECHN's assets at an unreasonable risk.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(6), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that the financing of the transaction by the nonprofit hospital will place the nonprofit hospital's assets at an unreasonable risk. Consistent with the OAG's interpretation of this provision in *Sharon*, we interpret this statutory provision to require our examination of the proposed financing of the transaction to ensure that the APA does not "burden the for-profit entity

with so much debt that the transferred assets of the former nonprofit hospital, albeit now operated for profit, will be placed at an unreasonable financial risk of closure or bankruptcy—an event that would result in a loss of healthcare for the affected community." *In re Sharon Hospital*, Docket No. 01-486-01, p. 64 (2001).

Based upon the record, we conclude that the financing of this transaction will not place ECHN's assets at risk. PMH confirmed on the record that the $105 million purchase price for ECHN's assets will be financed with operating cash from PMH. More specifically, PMH represented that it has the financial capacity to provide the necessary capital to purchases ECHN's assets without transaction-specific financing arrangements. After its review of the transaction, Navigant concluded that PMH will not incur any debt financing to consummate the transaction, and so, ECHN's assets would not be put at an unreasonable risk.

As such, we conclude that the assets of ECHN will not be placed at an unreasonable risk due to the financing of the transaction.

**G. The management contract contemplated under the transaction is for reasonable fair value.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(7), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that any management contract contemplated under the transaction is not for reasonable fair value. No management contract is contemplated under the APA. Accordingly, we conclude that this element of the analysis has been met.

**H. Assuming compliance with the modifications imposed below, a sum equal to the fair market value of ECHN's assets is being transferred to the New Foundation to provide only for charitable health care services in the affected community.**

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(8), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that:

> a sum equal to the fair market value of the nonprofit hospital's assets (A) is not being transferred to one or more persons to be selected by the Superior Court who are not affiliated through corporate structure, governance or membership with either the nonprofit hospital or the purchaser, unless the nonprofit hospital continues to operate on a nonprofit basis after the transaction and such sum is transferred to the nonprofit hospital to provide health care services, and (B) is not being used for one of the following purposes: (i) For appropriate charitable health care purposes consistent with the nonprofit hospital's original purpose, (ii) for the support and promotion of health care generally in the affected community, or (iii) with respect to any assets held by the nonprofit hospital that are subject to a use restriction imposed by a donor, for a purpose consistent with the intent of said donor.

This provision in the Conversion Act advances the important policy that the value of the nonprofit hospital be preserved for charitable healthcare purposes in the service area that the nonprofit hospital previously served. In addition, it restates the OAG's statutory responsibility to protect the public interest in the protection of gifts made for charitable or public purposes codified at Conn. Gen. Stat. § 3-125.

The language of Conn. Gen. Stat. § 19a-486c(a)(8) requires the OAG to assess several different issues in connection with the APA. We must first analyze, determine, and approve a value that is the "sum equal to the fair market value of the nonprofit hospital's assets." Second, we must analyze the nature and purpose of the entity to which that sum is being transferred. Third, we must determine and require that the transferred sum is used only for the statutorily identified charitable purposes. Last, we are required to inventory all gift documents and restricted charitable assets currently held by ECHN and identify any approximation and/or equitable deviation needs in connection with these assets.

*1. A Sum Equal to the Fair Market Value of ECHN is Being Transferred to the New Foundation.*

The term "fair market value" is used in several places in subsection (a) of § 19a-486c. As discussed in the OAG's *Sharon* decision, and more fully below, fair market value has two distinct meanings depending on which section of the Conversion Act the term is used.

Subsection (4) of § 19a-486c requires us to ensure that the nonprofit hospital receives fair market value for its assets. As discussed earlier, subsection (4) defines "fair market value" as the likely price that the assets would bring in a sale in a competitive and open market. Subsection (4) is looking for the gross asset value.

If fair market value were computed for purposes of subsection (8) as it is for subsection (4), though, the nonprofit hospital might be left transferring to a conversion foundation the proceeds of its sale, but leaving the nonprofit hospital no ability to pay off its liabilities post-closing with some portion of those proceeds. Such a result is nonsensical, because a primary goal of a nonprofit hospital's sale of assets is the extinguishment of corporate liabilities. For example, in the case of ECHN, its long-term bond debt will be paid off with proceeds from the sale of its assets.

The definition we use for fair market value for purposes of subsection (8), therefore, is more appropriately the price paid for the nonprofit hospital's asset minus the amount of its debt obligations and other liabilities that it will resolve using the proceeds of the proposed transaction. In other words, fair market value equals the net proceeds of the nonprofit hospital. *In re Sharon Hospital*, OAG Docket No. 01-486-01, p. 69 (2001). With respect to ECHN, the net asset value calculation must take into account all retained assets and liabilities, including, for example, cash, accounts receivable, any adjustment to the net working capital figure, its long-term debt, workers' compensation and medical malpractice

liability relating to events occurring prior to closing, and any payor liabilities and obligations from reporting periods prior to closing.

Late Filed Exhibit 8 (App., p. 4261) sets forth the most current numbers on what proceeds will remain after netted with ECHN's liabilities. In short, this exhibit projects that nothing will remain after ECHN pays off its liabilities. In fact, it appears that ECHN will not even have sufficient assets to fund the indemnity reserve or to fully pay for its liabilities in excess of $77 million (the excess liability is currently tallied at $7,924,000), both obligations of ECHN. Given these numbers, we conclude that the sum that is equal to the fair market value of ECHN is currently zero.

However, the post-transaction nonprofit ECHN, Legacy ECHN, may receive funds after the close. For example, Legacy ECHN may receive reimbursements due from Medicare and Medicaid for the years prior to the closing. Also, Legacy ECHN will receive income from the unrestricted endowments during the time period between the close of the transaction and the Superior Court order that will transfer all charitable assets from Legacy ECHN to the New Foundation. Moreover, Legacy ECHN may receive charitable distributions from pending estates, i.e., the Damato estate. This income will initially be used to pay off ECHN's liabilities and to fund the indemnity reserve, both obligations of ECHN.[15] After these obligations are paid or funded, however, any funds remaining would constitute net proceeds.

Because the final net proceeds value of the nonprofit hospital cannot be precisely identified prior to the actual closing of the transaction, the determination of a sum equal to

---

[15] Legacy ECHN could also use these funds to finance wind-down costs, but Exhibit 8 already includes a line item for "Post-closing Pool 'Wind Down' Funds." Regardless, Wind Down costs are an appropriate expense for Legacy ECHN.

the fair market value for the purposes of subsection (8) must await a post-closing accounting. Accordingly, as soon as reasonably possible after the Applicants have agreed to a Final Closing Statement of the asset purchase, the Applicants must provide the OAG a final accounting of the transaction that sets forth the balance sheets of ECHN immediately prior to, and Legacy ECHN immediately after, the closing and that provides a net proceeds analysis, substantially similar to Late Filed Exhibit 8 with explanations of any changes to the figures. This requirement is a condition of approval for the proposed transaction.

Additionally, because Legacy ECHN will receive income post-closing that may constitute net proceeds, Legacy ECHN shall, as a condition to the OAG's approval of the transaction, report quarterly to the OAG regarding (1) any and all income received by Legacy ECHN post close, including, but not limited to, Medicare and Medicaid reimbursements, income from charitable assets held by Legacy ECHN prior to transfer to the New Foundation, and any additional charitable funds received, and (2) all expenditures for Legacy ECHN.

Last, if the transaction ultimately produces net proceeds, that amount will be transferred to the New Foundation for use consistent with the charitable purpose of the New Foundation.

*2. The Nature of the Conversion Foundation Complies with the Conversion Act.*

The Conversion Act requires that the net asset value of the nonprofit hospital be transferred to "one or more persons to be selected by the Superior Court who are not affiliated through corporate structure, governance or membership with either the nonprofit hospital or the purchaser, unless the nonprofit hospital continues to operate on a nonprofit basis after the transaction and such sum is transferred to the nonprofit hospital to provide

health care services." Conn. Gen. Stat. § 19a-486c(8)(A). This provision prohibits improper affiliation with the new for-profit hospital.

ECHN has submitted a draft certificate of incorporation ("COI") and draft bylaws for the New Foundation. By these submissions, ECHN is proposing to create an "independent conversion foundation." This particular type of foundation is completely independent from both the nonprofit hospital and the for-profit purchaser and must be approved by the Superior Court. There can be no affiliation by corporate structure, governance, or membership.

The draft documents comply with the requirements of the statute. The New Foundation will have no corporate relationship with PMH/ECHN, and the governing members of the New Foundation will not contemporaneously serve in any governing position at PMH/ECHN or at any of its affiliates. In addition, any individual who serves as member of a governing board at PMH/ECHN must wait two years before serving on the governing board of the New Foundation. (Exhibit Q10-2, New Foundation Bylaws (Draft), pp. 917-18.) The New Foundation meets the affiliation requirements of § 19a-486c(8)(A).

The New Foundation will also be operated for the proper purposes, as set forth in the Conversion Act. Section 19a-486c(a)(8)(B) provides that the New Foundation must be operated:

> (i) For appropriate charitable health care purposes consistent with the nonprofit hospital's original purpose, (ii) for the support and promotion of health care generally in the affected community, or (iii) with respect to any assets held by the nonprofit hospital that are subject to a use restriction imposed by a donor, for a purpose consistent with the intent of said donor . . . ."

§ 19a-486c(a)(8)(B).

In its draft COI, the New Foundation lists it purposes as follows:

> (a) To maintain and improve the health of the residents of the area historically served by Eastern Connecticut Health Network, Inc., Manchester Memorial Hospital, Inc., and Rockville General Hospital, Inc., specifically, the nineteen communities of Manchester, Vernon (including Rockville), Andover, Ashford, Bolton, Columbia, Coventry, East Hartford, East Windsor, Ellington, Glastonbury, Hebron, Mansfield, Somers, South Windsor, Stafford, Tolland, Union, and Willington (the "Communities");
>
> (b) To support or conduct community health needs assessments and encourage and support efforts to improve the health of the Communities, including the poor, the elderly, the disabled, children, and other underserved and at-risk populations;
>
> (c) To support and engage in community projects, activities, and programs that will improve access to care and enhance the health of residents, including, but not limited to, preventative health programs and health education;
>
> (d) To solicit and accept additional funds to support the Corporation's purposes, and to make grants and provide financial and other support to other non-profit organizations engaged in activities that further the Corporation's purposes;
>
> (e) To support and promote the education and training of medical professionals and providers in the area;
>
> (f) To work cooperatively with Prospect Medical Holdings, Inc. ("PMH") to ensure and augment a network of affordable and accessible health and medical care in the region; provided, however, that the Corporation will not support programs operated by or for the direct benefit of PMH while it operates as a for profit entity; and
>
> (g) To engage in any lawful act or activity for which a corporation may be organized under the Revised Nonstock Corporation Act of the State of Connecticut in furtherance of the foregoing.

(Exhibit Q10-1, Certificate of Incorporation (Draft), pp. 911-12.) These purposes are consistent with the requirements in the Conversion Act.

*3. The Transferred Sum Will Be Used Only for the Statutorily Identified Charitable Purposes.*

ECHN currently predicts that it will have no net proceeds to transfer to the New Foundation after the closing. Should a subsequent accounting of the transaction reveal net

proceeds, however, we must ensure that they will forever be used for their proper charitable purpose. The draft COI established the proper charitable purposes, but the primary mechanism to ensure that they will be used as such forever is the requirement that the New Foundation Board receive the consent of the Attorney General for the amendment of specific sections of the COI, specifically, paragraphs 2, 5, 8, and 14. In this way, the purposes of the New Foundation (paragraph 2 of the COI) cannot change unless the Attorney General agrees. Accordingly, as a condition to the Attorney General's approval of the Application, the New Foundation must include paragraph 14 in the draft COI in the final COI of the New Foundation, requiring Attorney General approval for changes to paragraphs 2, 5, 8, and 14 of the Certificate of Incorporation.

*4. Description and Quantification of the Nonprofit Hospital's Charitable Assets to be Held by the New Foundation*

Our final area of concern is to ensure that the charitable assets of ECHN, which have been held in trust for the public, are safeguarded and used for the promotion of healthcare in the area served by ECHN after the sale of its assets to PMH. We must also ensure that any restrictions contained in these charitable gifts and trusts are protected.

*a. Purpose of Attorney General's Review of Charitable Gifts*

A full analysis and review of ECHN's charitable gifts and trusts at this time is essential for several reasons. First, it permits us to fulfill our statutory obligation to ensure that all of ECHN's charitable gifts and trusts are used for a purpose consistent with the intent of the donor. In other words, this review ensures that ECHN's analysis and treatment of charitable funds in the Application correctly interprets the donors' charitable use restrictions. Second, it ensures that, with respect to the charitable gifts, no aspect of the transaction is "prohibited by Connecticut statutory or common law governing nonprofit

entities, trusts or charities." Conn. Gen. Stat. § 19a-486c(a)(1). Finally, it provides subsequent holders of the funds, i.e., the New Foundation, with accurate information about whether and how the gifts are restricted under Connecticut law so that it can administer them in accordance with donor restrictions, charities law, the terms of the contractual agreements, and modifications required in this decision.

*b. Documents Reviewed and Legal Standards*

As part of the Application, ECHN provided a review and analysis of its charitable gifts and endowments. (Exhibit Q11-1, Detail on Specific Funds, p. 927-976.) ECHN was required to provide copies of the gift instruments (including wills, inter vivos trust agreements, and documentation of inter vivos gifts), to document the current values of the funds, and to describe the donor's restrictions or directives reflecting how the gift was to be used by ECHN. The purpose of the OAG's request was to obtain the information necessary to: (1) review the gift instrument for each of ECHN's gifts to determine whether its language would permit the gift to be transferred to another nonprofit, or whether a reverter clause or gift-over provision would be triggered by the sale of assets that would require the donation to revert to a different person, and (2) determine whether the donor restricted the use of a fully expendable gift, or the income earned on an endowment fund, to a particular charitable purpose set out in the gift instrument, for example, free beds, charity care, maintenance, a building fund, or research.

The OAG reviewed each charitable gift and its supporting documentation to confirm the accuracy of ECHN's conclusions regarding the proper charitable purpose of the fund and any spending restrictions on the fund.

*c. Amount Stated by Hospital in Application*

ECHN has stated that as of September 30, 2015, it held $23,356,291 in charitable

assets, plus an additional $19,349 in special funds. Thus, according to its figures as of that date, a total of $23,375,640 in charitable gifts would be transferred to the New Foundation. In addition, the value of trusts held by third parties for the benefit of ECHN was $10,809,693 as of September 30, 2015.

We asked ECHN to update the value of the funds as of March 31, 2016, in a late filed exhibit. As of that date, it held $23,106,027 in charitable assets, plus an additional $9,979 in special funds. Thus, according to its figures as of that date, a total of $23,116,006 in charitable gifts would be transferred to the New Foundation.

*d. ECHN's Charitable Gifts and Trusts.*

The law on approximation, or cy pres, is well-developed in Connecticut. Indeed, the OAG brought an approximation action in the *Sharon* matter to address those charitable purposes that could no longer be fulfilled due to the sale of Sharon Hospital's assets. In that case, the court set forth the standards for approximation.

> In determining the construction of a charitable trust upon the failure of its stated purpose, the court applies the common law doctrine of cy pres, or approximation to as near as possible reflect the donor's intent. When it becomes illegal or otherwise impossible to carry out the terms of a charitable trust, rather than allow it to fail, the court will apply the doctrine of cy pres or approximation in order to carry out the charitable intentions of the donor as near as possible. "The rule of cy pres is a rule for the construction of instruments in equity, by which the intention of the party is carried out *as near as may be,* when it would be impossible or illegal to give it literal effect . . . The doctrine of cy pres may be applied without the consent of the donor." (Citations omitted; emphasis in original; internal quotation marks omitted.) *Carl J. Herzog Foundation, Inc. v. University of Bridgeport, 243 Conn. 1, 10 n.8, 699 A.2d 995 (1997).*

*Blumenthal v. Sharon Hosp., Inc.*, 2003 Conn. Super. LEXIS 1657, 11-12 (Sup. Ct. 2003).

Also relevant to the conversion of a nonprofit hospital is the law on equitable deviation, which is similar to that of approximation but concerns the administration of a gift fund and not its charitable purpose. The equitable doctrine of deviation has been

applied to preserve the "dominant [charitable] purpose by modifying what is described as [a] secondary purpose, often the method or means for carrying out the dominant purpose." 8 G. Bogart, Trusts and Trustees (2d Ed. Rev.Repl.1991) § 396, p. 330. Courts use this legal doctrine to order a change in the administration of a charitable fund from one charitable entity to another. Equitable deviation will be necessary in this case to move the charitable funds from ECHN to the New Foundation or another appropriate entity.

The Attorney General's office inventoried the gift documents in Section IV(E) in the Findings of Facts. Based upon this inventory and ECHN's and our analysis of these charitable gifts, we have determined that as a condition of approval, the following actions must be taken with respect to these funds.

i. Unrestricted Endowments.

An endowment fund is defined as "an institutional fund or any part thereof not wholly expendable by the institution on a current basis under the terms of a gift instrument." Conn. Gen. Stat. § 45a-535a(2). The institution that holds an endowment fund cannot fully expend such fund, but may only appropriate so much of an endowment's funds for expenditure or accumulation as the institution determines to be prudent for the uses, benefits, purposes for which the endowment fund is established. Unless stated otherwise in a gift document, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. Conn. Gen. Stat. § 45a-535c(a).

As a condition to the OAG's approval of the Application, Legacy ECHN must present to the Superior Court, in coordination with the OAG, a petition for equitable deviation and approximation to transfer these funds to the New Foundation or another appropriate entity and to change the charitable purpose of the unrestricted endowments to the charitable purpose of the New Foundation. This condition applies to all unrestricted endowments,

whether held by MMH, RGH, or the ECHN Community Healthcare Foundation, Inc.

ii. Restricted Endowments

The Conversion Act requires the recipient of the hospital's gift funds to use assets that are subject to a use restriction imposed by a donor for purposes that are consistent with the intent of the donor. Conn. Gen. Stat. § 19a-486c(a)(8)(B)(iii).

With respect to ECHN's restricted endowments, most of the charitable purposes can be fulfilled even though the funds will not be held by a hospital. For example, a free bed fund, which is used to provide charity care at a hospital, can still be used to pay for hospital bills for indigent individuals. These funds will simply need to be transferred to the New Foundation; no change in charitable purpose is needed. There are, however, several restricted endowments that will need their charitable purposes adjusted by the Superior Court as a result of the sale of ECHN's assets to a for-profit entity.

The Thomas D. Trotter Fund was given for the benefit of pediatric patients. The Julia and Percy Baker Family Memorial Fund was given for the benefit of the upkeep and physical maintenance of RGH. The Faith S. Schortman Fund was given for the benefit of the operation or improvement of the maternity or nursery facilities at RGH. These three funds must be modified so that no charitable income benefits PMH/ECHN.

Accordingly, as a condition to the OAG's approval of the Application, Legacy ECHN must, in coordination with the OAG, include the restricted endowments in the petition for equitable deviation and approximation that will be presented to the Superior Court. With respect to Trotter, Baker, and Schortman, Legacy ECHN must seek an order of approximation for each fund, in addition to one for equitable deviation, to adjust the fund's charitable purpose to one as close as possible to the donor's original charitable intent.

iii. Special Funds

ECHN has categorized eleven (11) funds as special purpose funds. Similar to restricted endowments, these funds have a specific purpose for which they are used. Unlike the restricted endowments, however, these funds can be completely used up; they are fully expendable. Therefore, to the extent that there is any money remaining in a special fund at the time the transaction closes, that fund will need to be a part of the equitable deviation and approximation action in order to transfer it and adjust its charitable purpose, if necessary.

Accordingly, as a condition to the OAG's approval of the Application, Legacy ECHN must, in coordination with the OAG, include any special fund for which any funds remain in the petition for deviation and approximation that will be presented to the Superior Court.

iv. Trust Held by Outside Trustees.

The last category of funds that the OAG must address as part of its hospital conversion review responsibilities are those charitable assets held by third parties for which ECHN holds the beneficial interest. ECHN has identified ten third party trusts for which it holds the beneficial interest.

In each of the ten cases identified by ECHN, the sale of ECHN's assets will not affect the structure of the trust, i.e., will not require the transfer of the trust to another entity. What may be necessary, however, is a switch of the charitable beneficiary and an adjustment to the trust's charitable purpose. Also important in the third-party trust analysis is whether the donors have directed that the charitable funds go elsewhere or have given the third-party trustees the power to redirect the charitable funds themselves if

ECHN were to sell substantially all of its assets. If not, then the trusts must be presented to a court for legal disposition. Consultation with the third-party trustees is necessary in these cases.

Under Connecticut charities law, a gift to one charity, with language providing for a substitution or gift over to another charity upon certain conditions, has long been valid. *See Colonial Trust Co. v. Waldron*, 112 Conn. 216, 233 (1930); *Christ Church v. Trustees*, 67 Conn. 554, 565-66 (1896). When a gift contains an alternate disposition of a fund in case of the failure of the bequest, the equitable doctrine of approximation does not apply. See *Hartford National Bank & Trust Co. v. Oak Bluffs First Baptist Church*, 116 Conn. 347, 351 (1933); *First Congregational Society of Bridgeport v. City of Bridgeport*, 99 Conn. 22, 31-32 (1903); 4 Scott, Trusts (4th Ed.) § 399.2, p. 495-96; Restatement (Second), 2 Trusts § 399, comment c. "The provision for a gift over upon failure of the charity negatives the existence of a general charitable intent, just as the absence of such a provision is evidence of such a purpose." *Connecticut Bank & Trust v. Cyril and Julia C. Johnson Mem. Hosp.*, 30 Conn. Supp. 1, 8 (1972), citing Bogert, Trusts and Trustees (2d Ed.) § 437, p. 426.

Accordingly, as a condition to the OAG's approval of the Application, Legacy ECHN must, in coordination with the OAG and the third-party trustees, bring any third-party trust in need of construction or approximation before a court of competent jurisdiction for appropriate orders.

v. Miscellaneous

The Life Insurance Policy (11-1.31) for which MMH is the beneficiary shall be included in the Superior Court petition for an order of equitable deviation if the insured is still living at that time. Otherwise, the distribution of the insurance proceeds shall be included in the net proceeds of the transaction and treated as such.

ECHN's portion of the distribution in the Damato estate (and any other unrestricted gift to ECHN), if distributed prior to the Superior Court order transferring ECHN's charitable assets to the New Foundation or other charitable organization, shall be included in the net proceeds of the transaction and treated as such.

vi. Future Interests

To the extent there are future charitable interests for the benefit of ECHN, the disposition of those interests will be addressed on a case-by-case basis by a court under the doctrine of approximation. Only when a future interest becomes a present interest can a probate or superior court determine to whom the remainder will pass or whether the gift will fail and revert to the donors' heirs-at-law. Therefore, any future interests that have not yet vested cannot be included in the Superior Court action to address the identified charitable funds.

**5. ECHN Must Present the New Foundation and its Restricted Charitable Funds to the Superior Court for Approval and Approximation and Deviation Orders**.

Although the Attorney General has approved the purposes of the New Foundation and the other provisions in the draft COI and bylaws, ECHN will be required to present the New Foundation to the Superior Court for its approval and will need to have the court enter orders of approximation and equitable deviation to transfer the charitable assets to the New Foundation, or other eligible entity. The Office of the Attorney General shall participate in this action.

## I. ECHN and PMH Have Provided The Attorney General With Information And Data Sufficient To Evaluate The Proposed Joint Venture.

Pursuant to Conn. Gen. Stat. § 19a-486c(a)(9), the Attorney General shall disapprove the proposed transaction as not in the public interest if he determines that the

nonprofit hospital or the purchaser has failed to provide the Attorney General with information and data sufficient to evaluate the proposed agreement adequately, provided the Attorney General has notified the nonprofit hospital or the purchaser of the inadequacy of the information or data and has provided a reasonable opportunity to remedy such inadequacy. The Applicants have provided all relevant information and sufficient data to evaluate adequately the proposed APA.

## VII. CONCLUSION

The OAG therefore concludes that the Application for an asset purchase by PMH of substantially all of the assets of ECHN is hereby approved subject to the modifications and conditions listed herein.

**Date:** May 25, 2016

**PERRY ZINN ROWTHORN**
**DEPUTY ATTORNEY GENERAL**

# EXHIBIT A

NAVIGANT

# Financial Consulting Report related to the Proposed Transfer of Certain Assets from Eastern Connecticut Health Network, Inc. and its Affiliates to Prospect Medical Holdings, Inc.

**Presented to**

**Mr. George Jepsen**
**Attorney General**
**State of Connecticut Office of the Attorney General**
**55 Elm Street, P.O. Box 120**
**Hartford, CT 06141-0120**
**Attention: Gary W. Hawes, Assistant Attorney General**

**FINAL**

**May 23, 2016**

Presented by

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**FINAL**

May 23, 2016

Mr. George Jepsen
Attorney General
State of Connecticut Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, CT 06141-0120
Attention: Gary W. Hawes, Assistant Attorney General

Dear Mr. Jepsen:

Navigant Consulting, Inc. ("Navigant") has completed its analysis with respect to the scope of services requested by your office pursuant to §§ 19a-486a to 19a-486h of the Connecticut General Statutes ("Nonprofit Hospital Conversion Act") and in accordance with the contract with your office effective on June 13, 2013 and including subsequent amendments effective on June 15, 2014 and August 5, 2014 (the "Contract").

Navigant's analysis and conclusions contained in this report pertain to the proposed transfer of certain assets (the "Proposed Transaction") from Eastern Connecticut Health Network, Inc. and its affiliates ("ECHN" or the "Health System") to Prospect Medical Holdings, Inc. ("PMH"). Our analysis was performed as of March 31, 2016 (the "Analysis Date" or the "Valuation Date").

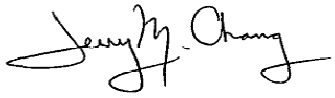
Our compensation for this assignment was not dependent in any way on the substance of our findings or conclusions. Our analysis was based, in part and where indicated, upon information provided by ECHN management and ECHN's designated legal and financial advisors. We have assumed that the information provided to us is complete and free of material misrepresentations. In addition, we have performed our own independent research and analysis related to the issues outlined by the State of Connecticut Office of the Attorney General ("OAG" or the "Attorney General") in the Contract.

We understand that this report will be part of the public record of the Attorney General's review pursuant to the Nonprofit Hospital Conversion Act and we reserve the right to respond to and explain our analysis, reasoning, and conclusions. The following report and accompanying appendices provide a detailed explanation of the basis of our analysis and conclusions. Please contact Jerry Chang at 404.602.3462 or jchang@navigant.com with any questions.

Very truly yours,
Navigant Consulting, Inc.

**FINAL**

By: Jerry M. Chang, CFA



Managing Director

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## INTRODUCTION

***Summary of Engagement***

Navigant was engaged by the OAG to provide financial consultation and expertise related to the OAG's review of the proposed transfer of certain assets from ECHN to PMH pursuant to Section §§ 19a-486a to 19a-486h of the Nonprofit Hospital Conversion Act, as of a current date.

This report specifically addresses the following conditions under Section §§ 19a-486c of the Nonprofit Hospital Conversion Act:

i. *Whether the nonprofit hospital exercised due diligence in (a) deciding to sell its assets, (b) selecting the purchaser, (c) obtaining a fairness evaluation from an independent person expert in such agreements, and (d) negotiating the terms and conditions of the transaction;*

ii. *Whether the nonprofit hospital disclosed any conflict of interest, including, but not limited to, conflicts of interest pertaining to board members, officers, key employees and experts of the nonprofit hospital, the purchaser, or any other party to the transaction;*

iii. *Whether the nonprofit hospital will receive fair market value for its assets, i.e., the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and in their own best interest, and with a reasonable time being allowed for exposure in the open market;*

iv. *Whether the fair market value of the nonprofit hospital's assets have been manipulated by any person in a manner that causes the value of the assets to decrease;*

v. *Whether the financing of the transaction will place the nonprofit hospital's assets at an unreasonable risk; and*

vi. *Whether any management contract contemplated under the transaction is for reasonable fair value.*

***Summary of Proposed Transaction***

ECHN has agreed to sell all or substantially all of its assets to PMH for $105 million, subject to certain adjustments. Such adjustments include a reconciliation for the value of net working capital, reductions in the value of certain liabilities assumed by PMH, and any joint venture interest not assumed provided the joint venture adjustment does not exceed $22 million. Assets not acquired include cash and equivalents, all short and long-term investments (excluding joint venture interests), board designated, trustee held or escrowed funds, beneficial interests in charitable trusts and the accrued earnings of the foregoing.

The proceeds from the transaction will be used to settle all of ECHN's bond liabilities and other indebtedness and then to fund an indemnity reserve to PMH against ECHN liabilities that may arise after closing. Such excluded liabilities are detailed in Section 2.04 of the draft Asset Purchase Agreement ("APA"). Thereafter, any remaining proceeds will be used to settle post-closing liabilities and wind down the operations of ECHN. Any remainder thereafter will be transferred to an independent charitable organization with the expectation such funds will be used to support charitable health efforts in the ECHN community.

In addition, PMH has committed to invest not less than $75 million in ECHN and its hospital service areas within five years of the closing of the Proposed Transaction. PMH has agreed to increase the purchase price for the assets by up to $10 million in the event that ECHN does not have sufficient cash to close the transaction, which increase would be offset by a corresponding reduction in the $75 million capital commitment amount.

*Eastern Connecticut Health Network, Inc.*

ECHN is a non-profit health care system serving 19 towns in eastern Connecticut. ECHN was formed in 1995 after the merger of Manchester Memorial Hospital ("MMH") and Rockville General Hospital ("RGH"), though both hospitals can trace their roots to the early 1900's. In addition to the hospitals, ECHN consists of a number of wholly owned outpatient facilities and clinics and ownership interests in multiple joint ventures. A comprehensive overview of ECHN can be found in *Section II. Overview and Background of ECHN.*

*Post-Acquisition Commitments*

Based on our review of the Certificate of Need ("CON") application (the "Application") submitted by ECHN and PMH, post-acquisition PMH has a number of commitments it must adhere to. The following provides a summary of some of those requirements:

1. Local Governance – MMH and RGH will each maintain an advisory board made up of community representatives, medical staff and the CEO of each respective hospital to consult with PMH with respect to the investment of capital and matters related to clinical quality goals.

2. Capital Commitment – PMH in consultation with ECHN will develop a capital plan in which PMH will commit to spending not less than $75 million in capital expenditures over a five-year period on the Health System Businesses (defined as ECHN and its joint ventures). PMH management indicated that the specific projects would be identified as part of an overall

strategic plan developed within six months of the transaction close date. PMH management indicated at the public hearing that projects would likely include expanding the Health System's physician network, increasing community access points, and increasing outpatient, ambulatory care sites.

3. Employment – PMH will offer employment as of closing to substantially all of the ECHN employees at compensation and benefits comparable to other hospitals operated by PMH. Additionally PMH will assume and honor ECHN's collective bargaining agreements.

4. Commitment to Clinical Operations and Community Support

    a. Operation of Hospitals: For at least three years after closing, PMH will continue operating the Health Systems' hospitals in their current location as acute care hospitals with emergency departments.

    b. Post-Acute Care: For at least three years after closing PMH will maintain its interest in VNHSC and EES, the current post-acute care providers in ECHN's network, and agrees to maintain appropriate service lines during this period.

    c. Medical Education: PMH will maintain and financially support ECHN's teaching programs and graduate medical education programs, while operating at a level not to exceed the Indirect Medical Education and Direct Education caps established by Centers for Medicare and Medicaid Services.

    d. Community Benefits: PMH will ensure each hospital maintains it policies with respect to charity care, indigent care, community volunteer services and community benefits.

The summary above does not purport to describe all of the details and terms of the Proposed Transaction and is included in this report for the purpose of providing general background of the Proposed Transaction. This summary may omit material terms of the final agreement, which may be further revised after the issuance of our final report.

***Description of Prospect Medical Holdings, Inc.***

Prospect Medical Holdings, Inc. ("PMH") started in 1996 out of Orange County, California, when the medical group, "Prospect Medical Group, Inc." began growing through a series of acquisitions and affiliations with various medical groups in the Southern California area. In 2007, PMH established its hospital operations with the acquisition of Alta Hospital System, LLC, a system of four community-based hospitals in Southern California and further expanded its Southern California presence with acquisition of Southern California Hospital at Culver City. In 2012, PMH's hospital operations expanded into Texas with the acquisition of Nix Health, and again in 2013 with an 18-bed acute care hospital in Dilley, Texas.

Today, PMH spans 13 hospitals with 2,258 licensed beds and 32 primary and specialty care clinics in Southern California, South Central Texas and Rhode Island. In Southern California, PMH has 10 affiliated Independent Physician Associations ("IPAs") which are managed by two of its subsidiaries, Prospect Medical Systems and ProMed Health Care Administrators which also manage several

unaffiliated IPAs. Through PMH's Coordinated-Regional-Care model, its network of physicians, affiliated medical groups, and hospitals contract with and coordinate care with various health plans in the markets it serves. PMH's network currently includes over 9,133 doctors and specialists who arrange care for over 300,317 network members. PMH is accredited by either Det Norske Veritas (DNV GL) Healthcare, Inc. or The Joint Commission. Additionally, PMH's medical groups have been awarded "Elite" status by the California Association of Physician groups and have earned 4 to 5 star ratings with Medicare Advantage Plans.[1]

The company's CEO and Chairman is Sam Lee, who previously served as CEO of Alta Healthcare System, which he co-founded after acquiring seven Los Angeles area hospitals from Paracelsus Healthcare Corporation. Prior to this, Mr. Lee was a General Partner with Kline Hawkes & Co., a private equity firm located in Brentwood, California which focuses on acquisitions in healthcare, technology and business services. Other key PMH leadership are listed below[2]:

- David Topper, President of Alta Hospital System, LLC
- Mitchell Lew, MD, President
- Stephen O'Dell, Senior Vice President, Coordinated Regional Care
- Steve Aleman, Chief Financial Officer
- Ellen J. Shin, General Counsel and Secretary
- Cindra Syverson, Chief Human Resources Officer
- Von Crocket, Senior Vice President, Corporate Development
- Thomas Reardon, President, Prospect East Hospital Advisory Services, Inc.
- Hoyt Sze, Chief Compliance & Privacy Officer
- Jonathan J. Spees, Senior Vice President, Mergers and Acquisitions

Leonard Green & Partners, L.P. ("Leonard Green") is a major investor in PMH. Leonard Green is one of the nation's preeminent private equity firms with over $15 billion of private equity capital raised since its inception. Founded in 1989, the firm has invested in 76 companies in the form of traditional buyouts, going-private transactions, recapitalizations, growth capital investments, corporate carve-outs and selective public equity and debt positions. Based in Los Angeles, CA, Leonard Green invests in established companies that are leaders in their markets.

The affiliated investment funds of Leonard Green own approximately 61.3% of the common stock of Ivy Holding, Inc. ("IH"), a Delaware corporation which owns 100% of the stock in Ivy Intermediate Holding, Inc. ("IIH"). IIH is a Delaware corporation which owns 100% of the stock of PMH. IIH is a holding company for such stock ownership. It has no other assets, liabilities or operations. Current and former employees of PMH and its subsidiaries own the remaining shares of IH stock.

[1] http://www.pmh.com/

[2] Certificate of Need Application by ECHN and PMH dated October 13, 2015.

## OVERVIEW AND BACKGROUND OF ECHN

*Overview*

ECHN is a non-profit health care system serving 19 towns in eastern Connecticut. ECHN was formed in 1995 after the merger of Manchester Memorial Hospital ("MMH") and Rockville General Hospital ("RGH"), though both hospitals can trace their roots to the early 1900's. The ECHN care network consists of several wholly owned entities and multiple joint venture interests. The following provides a description of the wholly owned entities of ECHN.[3] **With the exception of ECHN Community Healthcare Foundation, Inc. ("ECHF")**, all entities described below will be acquired as part of the Potential Transaction.

- **Manchester Memorial Hospital ("MMH")** – MMH is a not-for-profit hospital with 249 licensed beds, located in Manchester, Connecticut. MMH is a short-term, acute-care general hospital, which provides inpatient, outpatient, and emergency care services to the residents of Manchester and 19 nearby towns.

- **Rockville General Hospital ("RGH")** - RGH is a not-for-profit hospital with 102 licensed beds, located in the Rockville section of Vernon, Connecticut. RGH is a short-term, acute-care general hospital, which provides inpatient, outpatient, and emergency care services for residents of Tolland County and nearby towns, for a total service area of 19 towns.

- **ECHN ElderCare Services, Inc. ("EES")** - EES is a not-for-profit, skilled nursing facility with 130 licensed beds and physical, occupational and speech rehabilitation services located in Tolland, Connecticut.

- **ECHN Community Healthcare Foundation, Inc. ("ECHF")** - ECHF is a not-for-profit organization whose purpose is to raise funds on behalf of ECHN and its not-for-profit subsidiaries. It was established in 2000, when the fund raising efforts of ECHN were consolidated into a single not-for-profit foundation. ECHF focuses primarily on the capital and program needs of ECHN and its not-for-profit subsidiaries.

- **Eastern Connecticut Medical Professionals Foundation, Inc. ("ECMPF") -** ECMPF is a not-for-profit organization that currently operates physician office practices in the Network's service area and a hospitalist program that serves MMH and RGH. Its mission allows it to operate other not-for-profit, separately incorporated allied health ventures.

- **ECHN Enterprises, Inc. ("Enterprises") -** Enterprises is a for-profit organization formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. Enterprises owns, leases and has an interest in real estate to support the mission and vision for ECHN. It is also the parent corporation of Haynes Street Property Management, LLC (HSPM). HSPM is a for-profit, limited liability company formed under the laws of the State of Connecticut, which manages the Glastonbury Wellness Center and sublets space to various MMH departments and physician offices, as well as to ECMPF.

[3] Based on information from ECHN's 2014 audited financial statements and the Certificate of Need Application by ECHN and PMH dated October 13, 2015.

- **Visiting Nurse and Health Services of Connecticut, Inc. ("VNHSC") -** VNHSC is a not-for-profit, nonstock Connecticut corporation that provides and administers a comprehensive, multi-disciplinary home health program, hospice program and wellness programs to promote the health of individuals, families and groups in the Greater Northern Central Connecticut area. In addition, VNHSC is the sole member of A Caring Hand, LLC, which is a for-profit Connecticut limited liability company providing and administering homemaker, companion, live-in and personal care assistance services to individuals and families in the Greater Northern Central Connecticut area.

- **Connecticut Healthcare Insurance Company ("CHIC") -** CHIC, a captive insurance company, provides hospital and physician professional and general liability coverage to MMH, RGH, EES, and all other subsidiaries.

- **ECHN Corporate Services ("ECHNCS") -** ECHNCS is a for-profit stock corporation formed under the laws of the State of Connecticut, with ECHN as the sole shareholder. ECHNCS provides billing and other practice management services to the Network and other customers. It is also the parent corporation of Medical Practice Partners, LLC (MPP). MPP is a for-profit, limited liability company formed under the laws of the State of Connecticut, which provides practice management services to medical group practices throughout Connecticut.

- **Clinically Integrated Network of Eastern Connecticut, LLC ("CINECT")** - CINECT is a for-profit organization formed to develop a clinically integrated network of community providers to provide better quality healthcare in the communities it serves.

The following is a list and associated ownership interests of ECHN's joint venture interests in community based services to be acquired as part of the Potential Transaction between PMH and ECHN.

- Evergreen Endoscopy Center, LLC (50%)
- Aetna Ambulance Service, Inc. (50%)
- Metro Wheelchair Service, Inc. (50%)
- Ambulance Service of Manchester, LLC (50%)
- Northeast Regional Radiation Oncology Network, Inc. (50%)
- Tolland Imaging Center, LLC (70%)
- Haynes Street Medical Associates, LLC (23%)
- Haynes Street Medical Associates II, LLC (15%)
- Evergreen Medical Associates, LLC (20%)
- Evergreen Medical Associates II, LLC (20%)
- Walden Behavioral Health (16%)

*Finance and Operations*

Exhibits C-1 through C-10 provide detailed historical financial, operating, and payor mix statistics relating to ECHN and its hospitals (MMH and RGH). Overall, ECHN revenues have decreased to $315 million from $329 million in 2014 and $328 million in 2013. The operating margin was -0.1 percent in 2015 and ECHN's profitability has been marginal over the 2011 to 2016 time frame, with operating margins ranging from -0.1 to 1.7 percent.

As of September 30, 2015, ECHN had a consolidated asset balance of $261 million, which consisted of $75 million in current assets, $88 million of net fixed assets, $18 million in joint venture interests, $71 million held in long-term investments (most of which is restricted), and $9 million in other assets. However, ECHN has significant liabilities consisting of $52 million in current liabilities, $11 million of which was in the form of short-term debt. Long-term liabilities total $150 million which include $80 million of long-term debt and capital leases and $62 million in long-term pension obligations. Debt service on long-term debt and capital leases are projected to be $7 million in 2016 and ECHN anticipates contributing $1.8 million to the pension plan in 2016.

In addition to debt service and pension contributions, ECHN has an aging infrastructure. Depreciation in 2015 was $12 million and is projected to range between $11.7 and $11.8 million over the next several years. ECHN management communicated that its plant and equipment purchases for 2014 and 2015 totaled $10.1 million and $7.4 million, respectively, which were below ECHN's depreciation expense for both of those years and below the national median for <Baa rated hospitals[4]

Given ECHN's significant liabilities and capital needs, combined with its deteriorating financial performance, the Health System is nearing potential financial distress (including not meeting certain debt service coverage ratios) absent an affiliation with a larger and more capitalized partner.

[4] Public hearing presentation entitled, "The Proposed Transfer of Assets of Eastern Connecticut Health Network, Inc. and Affiliates to Prospect Medical Holdings, Inc.", March 29 & 30, 2016.

## ECONOMIC OVERVIEW

When valuing a health system or its assets, it is important to consider the condition of, and outlook for, the economy or economies in which the health system operates. This economic analysis is necessary because the financial performance, and consequentially the value, of a health system or its assets are affected to varying degrees by the economic environment in which the health system operates. The following section provides a brief discussion of the economic condition and outlook for the national and local economy and any impact it could have on a health system's business and related assets.

### *General Economic Conditions*[5]

The gross domestic product (GDP), the broadest measure of the U.S. economy slowed for a second consecutive quarter, growing at an annual rate of 0.7 percent in the fourth-quarter of 2015, less than half of the 1.5 percent rate of growth observed in the third-quarter of 2015. In 2015, the economy grew 2.4 percent from the year before, matching 2014 growth. Final sales of domestic product rose in fourth-quarter by 1.2 percent, following an increase of 2.7% in the third-quarter. The Economic Policy Institute has stated that final sales are arguably a better indicator of underlying economic strength than GDP.

The slowing of GDP growth in the fourth-quarter was largely driven by slowed consumer spending, a deterioration in the national trade balance, a sharp drop in private investment, and a smaller build up in business inventories. However, despite the consumer spending losing ground in the fourth-quarter, positive assessments of the job market drove up consumer confidence. Job growth in the fourth-quarter was the strongest of the year, and 2015 capped off the best two year period of hiring since the period ending in 1999.

#### *Consumer Spending*

Consumer spending grew at a rate of 2.2 percent during the fourth-quarter of 2015, a deceleration from the third quarter's 3.2 percent increase. Consumer spending—also referred to as personal consumption—accounts for approximately 70 percent of the U.S. GDP.

#### *Government Spending*

Total government spending rose at a rate of 0.7 percent in the fourth-quarter of 2015, slower than the rate of 1.8 percent in the prior quarter. Federal government spending rose at a rate of 2.7 percent in the third quarter, the fourth rise in the past 13 quarters and the largest increase since the third quarter of 2014. The fourth-quarter increase in federal government spending added 0.18 percentage point to the fourth-quarter GDP rate.

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[5] All of the contents of the general and U.S. economic outlook section of this valuation report are quoted from the Economic Outlook Update™ 4Q 2015 published by Business Valuation Resources, LLC, © 2016, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report.

*Business Investment*

Business investment, also known as private nonresidential fixed investment, fell at a rate of 1.8 percent in the fourth-quarter of 2015. This was the first decline in business investment since the third quarter of 2012. The drop in business investment subtracted .24 percentage point to fourth-quarter GDP.

Residential fixed investment, often considered a proxy for the housing market, increased at an annual rate of 8.1 percent during the fourth-quarter. This was almost identical to the prior quarter's rate of 8.2 percent. This quarter's growth in residential fixed investment added 0.27 percentage point to the third-quarter GDP. Residential fixed investment increased 1.8 percent in 2014 and 9.5 percent in 2013.

*Exports and Imports*

Exports fell at a rate of 2.5 percent in the fourth-quarter of 2015, after growing at a rate of 0.7 percent in the previous quarter. Exported goods dropped at a rate of 5.4 percent in the fourth-quarter, while exported services increased at a rate of 3.6 percent. Exports increased 3.4 percent in 2014 and 2.8 percent in 2013.

*Unemployment and Personal Income*

Hiring ended the year on a strong note, adding 292,000 new jobs in December. This was the second strongest month of the year for employment, only bested by October hiring which topped 307,000. December also marked the greatest two-year period of job growth since the period ending in 1999, while the unemployment rate held at its lowest level since April 2008. Businesses have now added 14.1 million jobs over 70 straight months, extending the longest streak on record. Overall, U.S. businesses have added 5.6 million jobs over the past 24 months.

The Bureau of Economic Analysis reported that current-dollar personal income increased $137.1 billion in the fourth-quarter of 2015, after increasing by $190.8 billion in the third. The BEA found that the acceleration in personal income primarily reflected a downturn in personal interest income and decelerations in wages and salaries and in farm proprietors' income.

Personal outlays increased $72.6 billion in the fourth-quarter, a deceleration from an increase of $131.7 billion the third. Personal saving – disposable personal income less personal outlays- was $739.3 billion in the fourth-quarter, up from $700.6 billion in the third.

***United States Economic Outlook***

Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, forecasts real GDP to increase at a seasonally adjusted annual rate of 2.5 percent in the first-quarter of 2016 and 2.7 percent in the second-quarter. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters ("the forecasters") for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates. The forecasters expect GDP to grow 2.5 percent in each year in the period from 2016 through 2018.

The forecasters polled by Consensus Economics believe unemployment will average 4.9 percent in the first-quarter of 2016 before ticking down to 4.8% in the second-quarter.

According to the forecasters, consumer prices will rise at a rate of 1.5 percent in the first-quarter of 2016 and 2.1 percent in the second-quarter. They forecast consumer prices to increase 1.7 percent in 2016 before rising to 2.2 percent in 2017. The forecasters project producer prices to increase 1.3 percent in the first-quarter of 2016 and 2.4 percent in the second-quarter. They expect real disposable personal income to grow 2.9 percent in 2016 and 2.8 percent in 2017.

***Impact on Valuation of ECHN and Related Assets***

The economy of certain areas across the U.S. continues to struggle following the economic downtown. But there is room for cautious optimism amongst economists. However, the economic headwinds will continue to challenge robust growth and increasing economic prospects for hospitals in areas that were hardest hit by the economic downturn, including the Eastern Connecticut markets of Manchester and Vernon.

## INDUSTRY OVERVIEW

### *Introduction*

An analysis of the healthcare industry is essential to developing an understanding of the industry's impact on the future outlook of ECHN and its related affiliates. The following sections provide: (i) an overview and general discussion of the healthcare industry, (ii) future trends in the healthcare industry, and (iii) the impact on our valuation.

### *General Overview*[6]

As a primary provider of healthcare in the United States, hospitals are expected to generate $1.0 trillion in revenue in 2015. Revenue is expected to increase 3.7% per year on average since 2009, including growth of 4.4% in 2015. This traditionally fragmented industry has begun consolidating, largely due to the pressures of healthcare reform. Demand for industry services has steadily grown during the past five years, as healthcare reform legislation broadened insurance coverage and the sinking unemployment rate increased disposable income.

To maintain an advantaged position in this competitive industry, hospitals seek the most skilled and specialized healthcare professionals. Consequently, labor costs in this industry are high. However, hospitals have also faced nurse and physician shortages and have struggled to recruit qualified personnel. As a result, wages' share of industry revenue has fallen during the five years to 2015. However, wages are expected to rise as a proportion of revenue during the next five years, as hospitals increase salaries and provide other employment incentives.

Industry profitability has generally risen over the past five years due to increases in service prices. As the 2010 Patient Protection and Affordable Care Act results in more people with insurance, demand for service will likely continue to increase, and the number of uninsured patients that hospitals treat will drop. As a result, IBISWorld expects industry revenue to rise at an average annual rate of 3.9% to $1.2 trillion during the next five years. Average industry profit is estimated to rise over the same period from 6.6% to 8.0% of revenue, buoyed by cost-cutting efforts and the Medicare and Medicaid Electronic Health Record (EHR) Incentive Programs. Still, reimbursement from Medicaid and Medicare will be strained while the federal government seeks to finance healthcare reform and individual states deal with budget deficits.

Healthcare reform may also have the long-term effect of driving some patients away from hospitals altogether. Hospitals are particularly expensive healthcare settings, and as Medicare and Medicaid begin imposing penalties for readmission, home healthcare will likely become more popular, eventually reducing demand for industry services. Technology will support this trend, as EHR and telemedicine apps enable patients to share information with healthcare providers from the comfort of their own homes.

[6] Hospitals in the US, IBIS World Industry Report 62211, August 2015

## Revenue and Profit

Advances in healthcare have helped people live longer lives. According to the Centers for Disease Control and Prevention, the average US citizen is currently expected to live more than 78 years. However, a longer life is generally accompanied by increased healthcare expenditure. As the median age of the US population has increased, so has total domestic spending on healthcare. Hospital care is the largest single category of healthcare expenditure in the United States, so the aging population has generally contributed to industry revenue growth.

The recession slightly reduced patient volumes, as individuals lost access to health insurance and decreased disposable income limited patients' ability to pay for services out of pocket. However, industry services are largely nondiscretionary, so many patients simply accepted care they could not afford, and profit margins for the average industry hospital fell as low as 6.0% in 2011. As industry operators moved to regain profit, many hospitals increased their prices for medical care. As the economy recovered and demand for industry services increased, high prices helped boost industry profitability. Profit margins have been further bolstered by the Medicare and Medicaid Electronic Health Record (EHR) Incentive Programs, which compensate eligible hospitals that demonstrate meaningful use of certified EHR technology. As a result, IBISWorld estimates the profit margin for the average industry hospital will reach 7.2% in 2015.

## Consolidation and Reform

Medicaid expansion and the individual mandate to purchase insurance began to take effect in 2014. Coverage purchased in the health insurance exchanges must meet minimum benefit standards, and this requirement is expected to improve the industry's financial situation. However, many states have chosen not to expand Medicaid coverage, and widespread technical and bureaucratic issues plaguing the introduction of state exchanges has limited the expansion of private coverage. Cuts to Disproportionate Share Hospital payments, which provide additional compensation to care providers to offset the burden of treating an outsize number of uninsured patients, have further limited growth for hospitals in some states.

In the midst of a tightened reimbursement environment, hospitals are consolidating to reduce costs by gaining better negotiating power with suppliers and payers. Operators are also closing underperforming hospitals. In the last five years, the total number industry enterprises is expected to decline at an average rate of 0.9% per year to 2,921 at the end of 2015. Reimbursement from government programs has grown at a slow pace, so hospitals have increasingly sought favorable contracts with nongovernment payers, including health maintenance organizations, preferred provider organizations and other managed-care plans. Revenue derived from these entities and other insurers is estimated to account for about 60.0% of patient revenue. Small hospitals are less able to compete for these lucrative contracts, while consolidated hospital companies can rely on economies of scale to offer a wider portfolio of providers and specialties.

Hospitals are also consolidating to combat competition from other providers. Historically, the Hospitals industry has faced low competition because most communities are home to only a few hospitals. However, during the five years to 2015, the number of new facilities that deliver healthcare services, such as physician-run outpatient surgery centers, specialty hospitals and diagnostic centers,

has grown rapidly. Independent competitors often have lower costs because of their smaller size and simpler infrastructure. Because hospitals use the income from high-margin operations to finance certain unprofitable services and procedures, increased competition has forced hospitals to use other strategies to decrease costs.

**Physician and Nurse Shortage**

To increase or maintain the breadth of specialized services they offer, hospitals must hire qualified physicians and nurses, which has become an industry-wide challenge because the nation faces a shortage in both professions. Hospitals have increased salaries to attract new hires, but while wages have grown an annualized 3.2% to $346.8 billion in the five years to 2015, industry employment has grown just 1.2% per year on average to 5.5 million people.

The nurse and physician shortage has occurred for a variety of reasons, including a scarcity of relevant education programs. According to a report from the American Association of Colleges of Nursing, US nursing schools turned away 78,089 qualified applicants from baccalaureate and graduate nursing programs in 2013, due to budget constraints and insufficient faculty, clinical sites, classroom space and clinical preceptors. In addition, many physicians are getting older and have retired, or will in coming years.

**Acquisitions and Employment**

Cash-poor nonprofit hospitals, which are unable to borrow money for needed improvements in facilities and equipment, will likely seek for-profit benefactors in the five years to 2020. Concurrently, for-profit hospital operators and investment firms will look to the nonprofit sector for growth opportunities. Nonprofit operators will also face new challenges due to healthcare reform. Section 9007 of the PPACA adds new requirements for charitable hospitals to become, or remain, exempt from federal taxation, including performance of periodic community needs assessments and development of a policy on financial assistance to patients. These changes will trigger further consolidation between nonprofit and for-profit operators in the industry. For-profit acquisitions of nonprofits are expected to increase during the next five years, reducing the number of industry operators an average of 0.3% per year to 2,876 in 2020. The total number of industry hospitals will decrease concurrently, albeit at the slower annualized rate of 0.3% to 5,358 in 2020.

Unfilled faculty positions at nursing colleges, attrition and a shortage of students preparing to be faculty will pose a threat to the nursing education workforce during the next five years. In light of healthcare reform and the subsequent demand for nursing services, the shortage of nurses will adversely affect the industry. Hospitals will likely enhance wages and benefits to recruit and retain nurses and other medical support personnel. Moreover, they may hire more expensive temporary or contract employees. As a result, IBISWorld expects industry spending on wages to increase an annualized 4.3% in the next five years to $427.2 billion.

***Impact on Valuation of ECHN and Related Assets***

As an unaffiliated hospital, the Health System is suffering from the enormous demands that the new healthcare environment entails. The consolidation trend within the industry is being driven by a number of factors, including:

- Increased capital needs to meet new healthcare information technology requirements;
- Increased capital needs to maintain and upgrade hospital facilities and medical equipment;
- Increased capital needs to facilitate the trend away from inpatient care to outpatient care;
- Significantly lower reimbursements from government payers;
- Highly competitive environment to recruit physicians and nurses into a hospital's network; and
- Importance of better negotiating power with suppliers and payers to increase profit margins.

As an unaffiliated health system, it has and will continue to be a very challenging environment in which to operate profitably and to compete effectively in its market. Given the Health System's current financial condition and limited access to capital, the Health System's projected performance will likely lag the industry and the Health System will face a difficult environment to operate long-term without affiliating with a strategic capital partner.

## LOCAL MARKET OVERVIEW

### *Introduction*

An analysis of the local market is essential to developing an understanding of the historical, current, and future operations of the Health System. The following sections provide: (i) an overview and general demographics of Tolland, Hartford, and Windham counties and the State of Connecticut (ii) overview of other area hospitals, (iii) industry outlook, and (iv) the impact on our valuation.

### *Demographic Overview*

ECHN's facilities provides healthcare services to 19 towns in Eastern Connecticut. The following tables summarizes various demographic and economic statistics applicable to the counties and cities ECHN serves.[7]

| County | Cities Included | Population | % of Population > age 65 | Median Household Income | Unemployment Rate % | Poverty Rate % |
|---|---|---|---|---|---|---|
| Tolland | Andover, Bolton, Columbia, Coventry, Ellington, Hebron, Mansfield, Somers, Stafford, Tolland, Union, Vernon, Willington | 151,367 | 14.0% | $80,529 | 4.6% | 6.5% |
| Hartford | East Hartford, East Windsor, Glastonbury, Manchester, South Windsor | 897,985 | 15.6% | $64,967 | 5.8% | 11.6% |
| Windham | Ashford | 116,198 | 14.7% | $59,333 | 5.8% | 11.4% |
| Connecticut | N/A | 3,596,677 | 15.5% | $69,461 | 5.3% | 10.2% |
| United States | N/A | 318,857,056 | 14.5% | $53,046 | 5.1% | 15.4% |

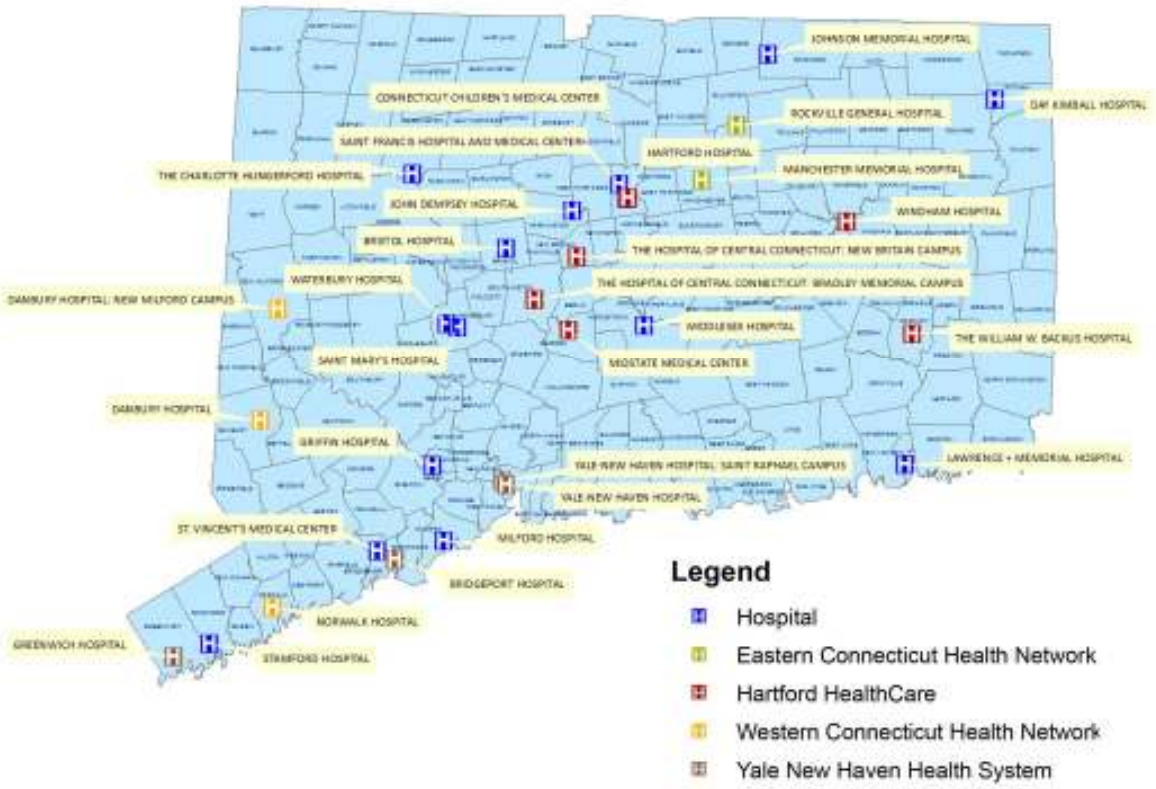
ECHN's combined service area reflects a population of approximately 1.2 million people. On measures of income, Tolland County ranks higher than the overall State of Connecticut, while Hartford and Windham counties rank below. Tolland County also has lower levels of poverty and unemployment than the overall State of Connecticut, though Hartford and Windham rank above the State in these statistics. In terms of its elderly population, the counties were similar to the overall State of Connecticut and national levels, but were significantly above in terms of income and had significantly lower poverty rates. Unemployment was above the national level of Windham and Hartford counties while Tolland County was below national unemployment.

### *Area Hospitals*

ECHN's primary service area is the Eastern Connecticut region. These areas are serviced by a number of acute care providers similar to ECHN, as well as local physicians' offices and outpatient medical centers. The following table identifies competing hospitals which lie in ECHN's service area.[8] Nearby hospitals include Johnson Memorial Hospital, Windham Hospital, the Hospital of Central

[7] Statistics compiled from the US Census Bureau and the US Department of Labor Unemployment Statistics.
[8] Source: http://www.cthosp.org/advocacy/statewide-hospital-profile/

Connecticut: New Britain Campus, St. Francis Hospital and Medical Center, Connecticut Children's Medical Center, and John Dempsey Hospital.




**Connecticut Hospital Industry Outlook**

In September 2015, Connecticut Governor Daniel P. Malloy ordered budget cuts which will have large implication for state hospitals. The cuts included a decision to cut Medicaid payments to hospitals by $63.4 million, these state cuts would lead to further reductions in federal funding which could total $130 million. This additional loss in federal funding is due to the payment structure of Medicaid, in which the state establishes payment program rates within federal requirements and a portion of those payment are funded by the federal government.

On June 3, 2014, Governor Malloy signed Senate Bill 35 from the 2014 session, which removed the prohibition of for-profit hospital systems from owning medical foundations and essentially cleared the way for five not-for-profit hospitals to be acquired by for-profit hospital companies like Tenet Healthcare. The bill adds state oversight to sales and acquisitions that involve physician practices under provisions of Public Act No. 14-168. In addition, medical practices with at least 30 physicians and medical groups owned by or affiliated with for-profit hospitals are required to report annually to the OAG and Department of Public Health. Tenet later pulled out of its planned Connecticut deals citing that "the approach to regulatory oversight in Connecticut would not enable Tenet to operate the hospitals successfully for the benefit of all stakeholders".

Smaller hospitals and physician groups in the region continue to seek the financial, administrative and group purchasing stability which comes from joining larger health systems. Since Tenet backed out of is acquisitions last year, both Eastern Connecticut Health Network and Greater Waterbury Health Network have continued to struggle and have engaged to be acquired by California-based Prospect Medical Holdings. In July 2015, it was also announced that Lawrence & Memorial Healthcare would join Yale new Haven Health System, and that Day Kimball Hospital in Putnam is evaluating a potential affiliation with Hartford HealthCare. Additionally, Johnson Memorial Hospital in Stafford has entered bankruptcy protection and is seeking to have its assets taken over by St. Francis Care.

The Connecticut market includes 28 acute care hospitals which care for approximately 375,000 people on an inpatient basis and approximately 1.65 million people on an emergency care basis in 2013. Over the same period of time these facilities delivered over 35,000 babies, provided over $200 million in charity care, and incurred $573 million and $588 million in Medicare and Medicaid losses respectively. On average Medicare reimburses 85 percent of treatment costs for patients in the state, while Medicaid reimburses 69%.

***Impact on Valuation of ECHN and Related Assets***

The recent legislation passed by the General Assembly allowing for-profit hospitals to acquire non-profits presents an opportunity for health systems such as ECHN which are currently non-profit. As healthcare systems move towards increased mergers and integration, smaller health systems such as ECHN will likely need to align with larger systems or hospital companies with access to capital in order to continue to serve the community.

The state budget cuts adversely affect hospitals in the State of Connecticut as a decrease in state spending also reduces federal funding. This becomes an even larger issue when dealing with hospitals and health systems facing capital challenges such as ECHN. While the hospital may be able to alleviate some income challenges through cuts in variable expenses, funding necessary capital expenditures into the future becomes a challenge as operations weaken.

## NAVIGANT VALUATION AND TRANSACTION ANALYSIS

The following sections specifically address the conditions analyzed by Navigant under Section §§ 19a-486c of the Nonprofit Hospital Conversion Act:

I. Due Diligence Analysis

II. Conflict of Interest Analysis

III. Fair Market Value of Assets Analysis

IV. Fair Market Value Manipulation Analysis;

V. Financing Analysis; and

VI. Management Contract Valuation Analysis

For each section below, Navigant performed an independent research and analysis that resulted in our findings and conclusions as of the Analysis Date or Valuation Date.

### *I. DUE DILIGENCE ANALYSIS*

In this section, Navigant will address:

*Whether the nonprofit hospital exercised due diligence in (a) deciding to sell its assets, (b) selecting the purchaser, (c) obtaining a fairness evaluation from an independent person expert in such agreements, and (d) negotiating the terms and conditions of the transaction.*

#### *Review Process*

In conducting our analysis, Navigant interviewed the following parties regarding the transaction due diligence process:

- Mr. Dennis McConville, ECHN SVP & Chief Strategy Officer
- Mr. Peter Karl, ECHN President & CEO
- Ms. Joy Dorin, ECHN Vice Chair Board of Trustees
- Dr. Dennis O'Neill, ECHN Chairman of the Board of Trustees
- Ms. Joyce Tichy, ECHN SVP & Chief Legal Counsel
- Mr. Mike Veillette, ECHN SVP & CFO
- Rebecca A. Matthews, Wiggin & Dana LLP
- Chris Regan, The Chartis Group
- Keith Dickey, The Chartis Group
- Todd Kaltman, Duff & Phelps
- Nick Tarditti, Duff & Phelps

In addition, Navigant reviewed the various materials, including but not necessarily limited to:

1) The ECHN and Prospect Medical Holdings Certificate of Need Application for a Proposed Asset Purchase dated October 13, 2015 (the "Application") and in particular Response 5 (pp 35-43) that described the process undertaken by ECHN in pursuing a strategic partner and eventually the Proposed Transaction;
2) The supplemental responses to the Application completeness letters dated November 23, 2015 and December 24, 2015;
3) Draft Asset Purchase Agreement between Eastern Connecticut Health Network, Inc. and Prospect Medical Holdings, Inc.;
4) Engagement Letter between Chartis Group and ECHN dated January 16, 2012;
5) Engagement Letter between Duff & Phelps, LLC an ECHN dated August 14, 2015;
6) Supplemental presentation by Prospect Medical Holdings dated March 28, 2016 and presented at the ECHN public hearings on March 29 & 30, 2016;
7) Duff & Phelps' Fairness Opinion Letter and related "Eastern Connecticut Health Network Fairness Analysis" presentation dated September 9, 2015
8) List of ECHN Board of Director meeting dates (Although requested by Navigant, ECHN representatives did not provide Board meeting minutes)

***Findings and Conclusions***

Based on the conditions, limitations, and qualifications contained herein and the interviews and document reviews described above, it appears that the ECHN Board undertook an extensive and diligent process to explore potential strategic options and identify strategic and capital alternatives that would enable it to address its relatively weak financial position and continue its mission of providing quality healthcare to the Manchester and Rockville/Vernon communities.

The process extended over a four (4) year period from 2011 to 2015 and includes the retention of the Chartis Group, a national advisory healthcare advisory firm. In connection with this process, the ECHN Board pursued discussions with multiple potential strategic partners, evaluated a range of transaction structures, and explored multiple strategies to access capital.

*a. Exercise of due diligence in deciding to sell its assets*

ECHN has had financial difficulties since 2001, generating annual net income losses while contending with significant debt service and pension related liabilities. While generating positive operating cash flows since 2011, ECHN's ability to meet both its debt service and pension related liabilities have been challenging, with ECHN reporting negative net income in 2011, 2013 and 2015.

ECHN management stated that it has implemented a number of cost cutting initiatives over the years to mitigate these trends, but at the expense of deferring needed infrastructure improvements. These included hiring freezes, wage freezes, eliminating defined contribution match, reductions in force, a reduced workweek of 37.5 hours, LEAN program initiatives and group purchasing initiatives. With the passage of the Patient Protection and Affordability Act of 2010 ("PPACA"), ECHN's finances were

further strained through reductions in federal and state government reimbursements for services, added requirements to participate in new payment models requiring higher levels of care coordination, and state supplemental payment challenges.

As a result of these developments, in September 2011, the ECHN board authorized the creation of a workgroup to study the impact of the PPACA on ECHN and to evaluate whether benefits would be realized by affiliating with another healthcare system or whether ECHN should remain independent.

- In November 2011, ECHN assembled its workgroup consisting of Trustees, Corporators, medical staff members and key executives. The workgroup hired the consulting firm The Chartis Group, LLC, a national healthcare consulting firm, to assist the workgroup in its evaluation.
- The workgroup began its study in December 2011, and met several times over the ensuing months with various constituents and prospective partner organizations to gain their perspectives on ECHN, its current state, and future.
- In September 2012, the workgroup presented its initial findings to the ECHN board, concluding that affiliating with a larger health system would help ECHN in i) attracting patients and providers based on quality, service, accessibility and affordability; ii) enhancing physician retention and recruitment; iii) improving ECHN's financial position; and iv) coordinating care to manage risk and participate in new payment vehicles.
- Following the presentation, the ECHN board voted to pursue an affiliation and tasked the workgroup with evaluating potential partners and developing key affiliation terms.
- By year end 2011, ECHN had a net income loss of $1.3 million, the first year the new State of Connecticut hospital tax had been implemented. Further, as a result of reduced patient volumes in 2012 and shifts in payer mix to exchange and Medicaid payers as a result of the PPACA, ECHN was projecting net income losses of $6 million per year in 2014 and 2015. Given these significant financial challenges, ECHN management concluded that partnering with another healthcare organization would be essential to maintaining its long term financial viability.

**In conclusion, based on the conditions, limitations, and qualifications contained herein and the interviews and document reviews described above, it appears that the steps undertaken by the ECHN Board, as described above, indicate that the ECHN Board exercised due diligence in i) evaluating ECHN's financial and operating and strategic position and ii) deciding to approve a potential sale of its assets as a viable option to preserve the long-term viability of the Health System.**

*b. Exercise of due diligence in selecting the purchaser*

Beginning in 2012, the ECHN Board took a series of deliberate steps to identify, evaluate and select a capital partner which ultimately resulted in its decision to approve the Proposed Transaction. These steps[9] included:

[9] See Section 5 (pp 35-43) from ECHN and Prospect Medical Holdings Certificate of Need Application for a Proposed Asset Purchase dated October 13, 2015 describing such steps.

- Between November 2012 and April 2013, the workgroup worked with The Chartis Group to develop Requests for Proposals ("RFP"'s) to three non-profit health systems and three for-profit health systems.
- The workgroup received and considered four indications of interest, and members of the workgroup met with each respondent for further detail on the proposal submitted, followed up with formal requests for clarification/additional information, conducted site visits to facilities operated by those healthcare systems and performed due diligence for each of the respondents.
- In April 2013, the workgroup made a formal presentation to the ECHN board of the proposals received and the board was asked to consider whether i) the proposals made would meet ECHN's needs and ii) whether other options should be considered. The board determined that other alternatives were unlikely and that further evaluation should be undertaken regarding the proposals received to date.
- On April 27, 2013, the ECHN board authorized the creation of a formal Board Transaction Committee to consider all proposals and evaluate their benefits and risks. The Transaction Committee carefully considered all proposals and also reviewed reverse due diligence information prepared by The Chartis Group.
- In June 2013, the Transaction Committee reviewed final information from the respondents and made its recommendation and report to the ECHN board. Their recommendation was to proceed with a proposal by a joint venture arrangement between Yale New Haven Health System ("YNHHS") and Vanguard Health Systems, Inc. ("Vanguard") (the "JV") in which the JV would acquire all or substantially all of the assets of ECHN. The Board considered and approved the recommendation of the Transaction Committee.
- On June 24, 2013, ECHN was informed by Vanguard that it was to be acquired by Tenet, but that Tenet intended to proceed with negotiating a letter of intent for the acquisition with ECHN.
- In July of 2013, the ECHN board considered the diligence review of Tenet conducted by the Transaction Committee and a proposed Letter of Intent. As a result of that review, the Board approved the Letter of Intent and it authorized management, in consultation with the Transaction Committee, to proceed to negotiation of a definitive APA.
- The letter of intent was executed among ECHN, YNHHS and Vanguard on August 8, 2013. Following its execution, the parties conducted confirmatory due diligence and negotiated an APA which was executed by the ECHN board on April 9, 2014. On October 24, 2014, a certificate of need application for the acquisition of ECHN by the JV was filed with the Office of Attorney General and with the Office of Health Care Access.
- On December 11, 2014, Tenet informed ECHN that it was withdrawing its certificate of need application for the acquisition of ECHN, citing the proposed regulatory conditions that had been placed on its application to partner with Waterbury Hospital.
- While waiting to see if Tenet would return to Connecticut, the ECHN board reaffirmed its need for an affiliation partner and on January 6, 2015, sent letters requesting expressions of interest to five health systems. ECHN in turn received letters back from four Connecticut based systems expressing interest.
- On February 6, 2015, RFPs were sent to the health systems that had expressed interest and to two out-of-state systems that had approached ECHN with interest in an affiliation. On March 16, 2015, three proposals were received.

- The proposals were evaluated by the Transaction Committee against selection criteria approved by the ECHN board. Criteria included their ability with respect to ECHN's financial needs, its obligations to creditors, antitrust considerations and state regulatory acceptance for a hospital conversion.
- The Transaction Committee then met with each respondent for further detail on the proposals and followed up with formal requests for clarification/additional information on April 10, 2015. Following this, the Transaction Committee conducted reverse due diligence on each respondent, reviewing financial, quality, and corporate compliance data. The Transaction Committee also conducted site visits of affiliated hospitals recently acquired or merged with the respondents, meeting with leadership, members of medical staffs and employees of each organization.
- On May 7 and May 14, 2015, two teams of Transaction Committee members and ECHN executives toured Prospect Medical Systems, Inc. ("PMH") Culver City Hospital in Los Angeles, California, meeting with representatives in the areas of governance, medical staff leadership and administration. On June 8, 2015, members of the Transaction Committee and ECHN executives visited CharterCARE Health Partners ("CharterCARE") in Providence, Rhode Island, a PMH affiliated facility. There was a discussion regarding CharterCARE's transaction experience, the PMH organizational culture and PMH's implementation of PMH's CRC Model at CharterCARE.
- On June 1, 2015, requests were made to each of the respondents for best and final offers. At its June 16, 2015 meeting, the Transaction Committee reviewed the information from the respondents and it was agreed that ECHN would negotiate solely with PMH to address open items in their proposed APA.
- On June 22, 2015, the Transaction Committee reviewed and discussed the Letter of Intent and APA negotiated with PMH, and recommended unanimously that the board accept PMH's proposal. On June 25, 2015, the ECHN board met to discuss the Transaction Committee's recommendations and surrounding due diligence. Following the discussion, the ECHN board unanimously approved the Letter of Intent and APA in substantially the same form presented. On July 29, 2015, the Letter of Intent and APA was approved by ECHN's Corporators.
- Subsequent to the signing of the LOI, the ECHN Board and Management continued due diligence efforts. In January of 2016, two Prospect hospitals in California were cited by Medicare with an Immediate Jeopardy ("IJ") findings. Upon learning of the IJ findings, the ECHN Board met to discuss the implications. Due diligence was performed including reviewing PMH's current efforts to remedy the deficiencies, detailed phone conversations with PMH, and a quality team site visit to CharterCARE in Rhode Island. Upon completion of due diligence, the Board conducted a special meeting to address the concerns and concluded that their concerns were satisfactorily answered.

**Based on the series of actions described in this subsection (b), our discussions with ECHN representatives, and the conditions, limitations, and qualifications described herein, it appears that the ECHN Board exercised due diligence in selecting PMH as the entity that would purchase ECHN's assets.**

*c. Obtaining a fairness opinion from an independent person expert in such agreements*[10]

The Transaction Committee engaged Duff & Phelps to provide a fairness opinion related to the Proposed Transaction. In selecting Duff & Phelps to perform the fairness opinion, the Transaction Committee considered the advice of Ropes & Gray LLP, its transaction counsel and received additional recommendations by the Chartis Group. In total, five firms were solicited for bids to provide a fairness opinion including Goldman Sachs, DGA Partners, Cain Brothers, Duff & Phelps, and Principle Valuation.

Duff & Phelps was selected based on their favorable reputation in the healthcare fairness opinion marketplace and the strong recommendation from Ropes & Gray LLP. Duff & Phelps is a national and global provider of fairness opinions, with a dedicated healthcare practice. In connection with rendering its fairness opinion, Duff & Phelps evaluated traditional valuation methods, including a discounted cash flow and market multiples, and assigned a 50/50 weighting to each approach. On September 8, 2015, the Transaction Committee met to review the fairness opinion prepared by Duff & Phelps.

Navigant reviewed Duff & Phelps' fairness opinion analysis and held telephone discussions with the Todd Kaltman and Nick Tarditti who performed the analysis in order to gain an understanding of the methodology and key assumptions.

Duff & Phelps compensation for the services was based on a fixed fee and was not contingent on the closing of the Transaction, indicating a level of independence and objectivity in rendering its opinion.

**Based solely on our review of the Duff & Phelps fairness opinions and supporting analyses presented by Duff & Phelps, Navigant confirms that the ECHN Board did receive a fairness opinion with respect to the fairness, from a financial point of view, of the consideration proposed to be received in the Proposed Transaction from an independent expert (based solely on the representations contained in Duff & Phelps conflict of interest/financial disclosure forms, its fairness opinion letter and report).**

**Based on Navigant's review of the Duff & Phelp's fairness opinion, we make note of the following:**

- **Duff & Phelps considered three valuation methods in its fairness opinion (discounted cash flow, guideline company, and M&A transaction). Based on their analysis, Duff & Phelps developed a mid-point estimate of $57.1 million for the Health System.**
- **In addition, Duff & Phelps utilized a market approach and a capitalized cash flow approach to estimate the value of ECHN's joint venture interests at $13.1 million. The total fair value of ECHN's business enterprise (including the joint venture interests) estimated by Duff & Phelps was $70.2 million.**

[10] The description of the process undertaken by ECHN to obtain a fairness opinion as well as the actual fairness opinion and supporting analyses are provided in Section 7 (pp 47-48) and Exhibits Q7-2, Q7-3, and Q7-4 (pp 798-841) from the ECHN and Prospect Medical Holdings Certificate of Need Application for an Asset Purchase dated October 13, 2015.

- **Duff & Phelps did not develop an asset-based valuation approach.**

*d) Exercised due diligence in negotiating the terms and conditions of the transaction*

As highlighted in subsection (b) above, the ECHN Board took a series of deliberate steps to identify, evaluate, negotiate with and finally select a capital partner. In particular, with respect to negotiation of the Proposed Transaction, the ECHN Board undertook the following steps:[11]

- Retained The Chartis Group, an experienced healthcare consulting firm, to orchestrate a competitive solicitation process.
- Appointed a Transaction Committee to work with The Chartis Group in evaluating proposals and developing various levels of reverse due diligence on certain respondents which included on site visits and interviews with management.
- In its second round of RFPs, the Transaction Committee, with the assistance of the Chartis Group solicited a total of six health systems of which three sent responses back.
- With respect to each proposal, ECHN provided a template affiliation agreement and asset purchase agreement reflecting ECHN's contract requirements. ECHN asked all respondents to include any requested or required changes to the templates with their proposals. In addition, ECHN asked respondents to answer the following questions within their proposal:

  1. How the affiliation would help ECHN to achieve its vision and goals, with a focus on access to care, medical staff integration, clinical quality, safety, service and patient satisfaction.
  2. Proposed form or structure of affiliation (e.g., merger, acquisition of assets, member substitution or joint venture).
  3. Financial terms of affiliation, including proposed treatment of ECHN's existing debt, consideration, and future capital commitments.
  4. Proposed governance and management structure.
  5. Plans for retention of employees.
  6. Commitments to continuing and expanding services.
  7. Proposed timing, required regulatory approvals, and material contingencies.
  8. If the organization was subject to any religious or ethical restrictions that would apply to ECHN post-closing and, if so, how ECHN would continue to meet the needs of its community in the event the restrictions applied.

- The Transaction Committee evaluated each proposal against the strategic, financial, and operational goals of ECHN, any antitrust considerations and state regulatory requirements for a hospital conversion. Based on these considerations, the Transaction Committee unanimously approved PMH as being the best health system to partner with.
- On June 25, 2015, after consideration of the risks and uncertainty of each potential partner, and the due diligence performed on each, the ECHN board unanimously approved PMH's letter of intent and APA.
- Pursuant to the signing of the APA, ECHN management negotiated for terms to maximize the value to the Health System.

[11] See Section 5 (pp 18-22) from ECHN and Prospect Medical Holdings Certificate of Need Application for an Asset Purchase dated October 13, 2015.

- The transaction with PMH provided for deal terms consistent with the failed Tenet acquisition. After Tenet withdrew, ECHN conducted their search in an expedited manner, and considered that they had a more limited set of potential suitors. Therefore, ECHN management and Board believed that attaining a similar set of deal terms would be favorable to the Health System.
- PMH also agreed to increase the purchase consideration by up to $10 million in the event that ECHN does not have sufficient cash to close the transaction. The increase would be offset by a corresponding reduction in the $75 million capital commitment amount. Management strongly felt that this increased the probability of being able to close the transaction, even if unforeseen events occurred that would further weaken its financial position.
- Upon signing the LOI, ECHN was in negotiations to secure additional financing. If the assumable loan had been attained, then the purchase price would have been increased by $10 million. Ultimately, this financing was not secured as lenders were unwilling to extend ECHN additional credit.

**Based on the series of actions described in subsection (d) above, our discussions with ECHN representatives, and conditions, limitations, and qualifications contained herein, it appears that the ECHN Board exercised due diligence in negotiating the terms of the Proposed Transaction. Navigant would also note that ECHN had limited leverage for negotiations given its relatively weak financial condition, but was able to negotiate a transaction that recapitalized ECHN to stabilize current operations and provide a source of capital for long term growth.**[12]

## *II. CONFLICT OF INTEREST ANALYSIS*

In this section, Navigant will address:

*Whether the nonprofit hospital disclosed any conflict of interest, including, but not limited to, conflicts of interest pertaining to board members, officers, key employees and experts of the nonprofit hospital, the purchaser, or any other party to the transaction.*

### *Review Process*

In conducting its analysis, Navigant reviewed the following materials:

1) The Application from ECHN and PMH dated October 13, 2015 and in particular Response 6 (pp 43-47) that described the process undertaken by the ECHN and PMH for identifying conflicts of interest;
2) Exhibit Q6-1 to the Application that contains i) the August 2015 Conflict of Interest disclosures from ECHN Board of Directors, senior executives and experts advising on the Proposed Transaction, and ii) the August 2015 Conflict of Interest disclosures from PMH's Board of

[12] See Section 5 (pp 18-22) from ECHN and Prospect Medical Holdings Certificate of Need Application for an Asset Purchase dated October 13, 2015.

Directors, senior management and advisors who have a direct involvement in the Proposed Transaction;

During August 2015, conflict of interest and financial disclosure forms were prepared and disseminated to: i) the Board of Trustees of ECHN, MMH, RGH, ECHN Eldercare Services Inc., and Visiting Nurse and Health Services Connecticut, Inc.; ii) experts consulted with respect to the Proposed Transaction; and iii) senior executives of ECHN and PMH who had direct involvement in the Proposed Transaction.

The Conflict of Interest Disclosure forms required the person executing the form to disclose if that individual or any related person (person related by blood, law, or marriage, and individuals in committed relationship) has any financial interest, beneficial interest and/or employment interests in the transaction, ECHN, PMH or in any entity associated with the principals involved in the transaction.

***Findings and Conclusions***

**The following summarizes the conflicts of interest and related financial disclosures information for all persons identified in i), ii) and iii). Based on our review of the conflict of interest and disclosures forms, no individual had expressed having any financial or other beneficial interest in the transaction that would appear to compromise their objectivity and independence based on the Conflict of Interest Forms reviewed by Navigant.**

## ECHN Conflict Of Interest and Disclosures

| Name | Affiliation | Conflicts/Disclosures (1) |
|---|---|---|
| Gordon Brodie, MD | ECHN Trustee | None |
| Thomasina Clemon | ECHN Trustee | None |
| Michele Conlon, MD | ECHN Trustee | None |
| Joy Dorin | ECHN Trustee | None |
| Louise C. England | ECHN Trustee | None |
| Donald S. Genovesi | ECHN Trustee | None |
| David H. Gonci | ECHN Trustee | None |
| Rebecca D. Janenda | ECHN Trustee | None |
| Peter Karl | ECHN Trustee/Senior Management Team | None |
| Eric Kloter | ECHN Trustee | None |
| Pamela Lewis, MD | ECHN Trustee | None |
| Kathleen O'Neill | ECHN Trustee | None |
| Dennis O'Neil | ECHN Trustee | None |
| Keith J. Wolff | ECHN Trustee | None |
| Natalie Cook | ECHN Senior Management Team | None |
| Nina Kruse | ECHN Senior Management Team | None |
| Linda Lemire | ECHN Senior Management Team | None |
| Dennis McConville | ECHN Senior Management Team | None |
| Linda Quirici | ECHN Senior Management Team | None |
| Joel Reich, MD | ECHN Senior Management Team | None |
| Edward Roberts | ECHN Senior Management Team | None |
| Todd Rose | ECHN Senior Management Team | None |
| Joyce Tichy | ECHN Senior Management Team | None |
| Michael Veillette | ECHN Senior Management Team | None |
| Gregory Williams | ECHN Senior Management Team | None |
| Susan Breslau | ElderCare Services Board | None |
| Richard Bundy | ElderCare Services Board | None |
| David Engleson | ElderCare Services Board | None |
| Joanne Renee Irvin | ElderCare Services Board | None |
| Marianne Lassman-Fisher | ElderCare Services Board | None |
| Rev Donald Miller | ElderCare Services Board | None |
| Irene Quong-Conlon | ElderCare Services Board | None |
| Americo Rodrigues | ElderCare Services Board | None |
| Kathleen Stavens | ElderCare Services Board | None |
| Krystal Anderson | ElderCare Senior Management Team | None |
| Margaret Candito | ElderCare Senior Management Team | None |
| Catherine Collette | ElderCare Senior Management Team | None |
| Janet Gallugi | ElderCare Senior Management Team | None |
| Paul Golino | ElderCare Senior Management Team | None |
| Rosemary Harding | ElderCare Senior Management Team | None |
| Christine McGuire | ElderCare Senior Management Team | None |
| Katherine Mon | ElderCare Senior Management Team | None |

(1) A general provision in the asset purchase agreement offered at-will employment at PMH to substantially all employees of ECHN. Beyond this very general provision, no individual had any conflicts of interest or financial interests that would appear to affect their objectivity and independence.

## ECHN Conflict Of Interest and Disclosures Continued

| Name | Affiliation | Conflicts/Disclosures (2) |
|---|---|---|
| Melinda Agsten | Advisor | None |
| Jonathan Barry | Advisor | None |
| Aaron Bayer | Advisor | None |
| David Blackwell | Advisor | None |
| Cody Braithwaite | Advisor | None |
| Leslie DesMarteau | Advisor | None |
| Keith Dickey | Advisor | None |
| Adam Eckart | Advisor | None |
| Merton Gollaher | Advisor | None |
| Patrick Griffin | Advisor | None |
| Thomas Hurley | Advisor | None |
| Thomas Kaltman | Advisor | None |
| Rebecca Matthews | Advisor | None |
| Michael McDonough | Advisor | None |
| Anne Ogilby | Advisor | None |
| David Peloquin | Advisor | None |
| Lisa Pelta | Advisor | None |
| R. Christopher Regan | Advisor | None |
| Joseph Simpson | Advisor | None |
| Louis Spadaccini | Advisor | None |
| Nicolas Tarditti | Advisor | None |
| Lori Stone | Advisor | None |
| Jane Willis | Advisor | None |
| Mark Wilson | Advisor | None |

(2) The advisors and counsel to the transaction were compensated for their services. However, there were no other conflicts of interest or financial interests that would appear to affect their independence and objectivity.

## PMH Conflict Of Interest and Disclosures

| Name | Affiliation | Conflicts/Disclosures |
|---|---|---|
| Alyse Wagner | Director, BOD | None |
| John Baumer | Director, BOD | None |
| Michael Solomon | Director, BOD | None |
| Sam Lee | Chairman, BOD; CEO, PMH | None |
| Dr. Jeereddi Prasad | Director, BOD, President, ProMed | None |
| Dr. Mitchell Lew | President, PMH | None |
| Steve Aleman | CFO, PMH | None |
| Ellen Shin | General Counsel & Secretary, PMH | None |
| David Topper | President, Alta | None |
| Jonathan Spees | SVP, M&A, PMH | None |
| Von Crockett | SVP, Corporate Development, PMH | None |
| Steve O'Dell | SVP, CRC, PMH | None |
| Thomas Reardon | President, Prospect East | None |
| Gary Herschman | PMH Advisor, Epstein, Becker | None |
| Michele Volpe | PMH Advisor, Berstein, Volpe | None |
| Jay Krupin | PMH Advisor, Baker Hostetler | None |
| Elizabeth Dold | PMH Advisor, Groom Law Group | None |
| Alan Weiss | PMH Advisor, Lockton | None |
| Jim Tinyo | PMH Advisor, Keenan | None |
| Arthur Rains-McNally | PMH Advisor, Milliman | None |
| Chris Kujawa | PMH Advisor, Ernst & Young, LLP | None |
| Rosemary Free | PMH Advisor, Ernst & Young, LLP | None |

## *III. FAIR MARKET VALUATION OF ASSETS ANALYSIS*

In this section, Navigant will address:

*Whether the nonprofit hospital will receive fair market value for its assets, i.e., the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and in their own best interest, and with a reasonable time being allowed for exposure in the open market.*

For the purposes of our valuation analysis, we considered the following definitions of fair market value ("FMV") and are assuming no difference in the two definitions.

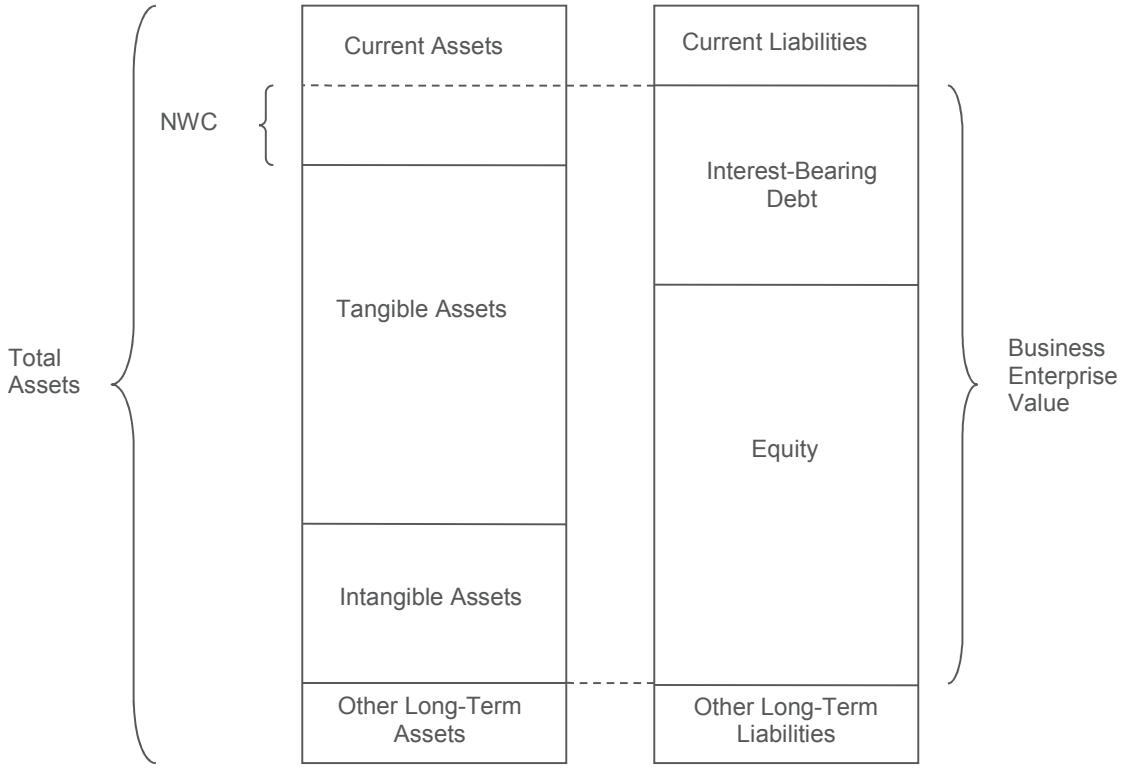
Nonprofit Hospital Conversion Act §§ 19a-486c:

> *…the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and in their own best interest, and with a reasonable time being allowed for exposure in the open market.*

IRS Revenue Ruling 59-60:

> *…the price at which an entity (asset) would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.*

The components of a hospital's total asset value can be depicted as follows:




However, it is our understanding that in the proposed transfer of assets between ECHN and PMH, certain assets will not be contributed, including but not limited to the following:

- All cash, cash equivalents and securities;
- All short and long-term investments (excluding joint venture interests);
- All board-designated, restricted, and trustee-held or escrowed funds;
- The assets of ECHN Community HealthCare Foundation ("ECHF")
- Other Assets identified in Section 2.02 of the APA

PMH will also assume all current liabilities accrued as of the transaction date, in addition to unfunded pension liabilities, ECHN's health benefit plan for retirees, ECHN's captive insurer liabilities of Connecticut Healthcare Insurance Company ("CHIC") and worker's compensation obligations. It is also been determined that all of ECHN's joint venture interests will be included in the Potential Transaction.

In estimating the FMV of the Health System's assets to be included in the Potential Transaction, Navigant conducted various procedures, including but not limited to the following:

- Review and analysis of relevant documents and data provided by ECHN management regarding ECHN, including historical and projected financial and operational results;
- Consideration of factors that would impact future financial and operational performance;
- Review of budgets and long-term financial and operational projections for ECHN;
- On-site interviews with the management of ECHN concerning:
    - the nature and operations of the business, including the historical financial and operational performance of ECHN;
    - existing business plans, future financial and operating performance estimates, and budgets for ECHN;
    - current and future capital expenditure needs; and
    - the assumptions underlying the business plans, estimates, or budgets, as well as the risk factors that could affect planned financial and operating performance, including expected patient volume, payer mix, service line mix, reimbursement expectations, market competition, and physician relationships;
- On-site inspection of ECHN by Navigant professionals to view the Health System's hospital facilities and operations, as well as conducting a field site analysis related to certain real and personal property;
- Review of initial and supplemental completeness question responses submitted to the OAG by ECHN's legal counsel;
- Review of the initial CON application (and responses) related to the Transaction;
- Review of transaction-related documents including the letter of intent and asset purchase agreement;
- Analysis of the industry, as well as the economic and competitive environments in which the ECHN operates;
- Analysis of the performance and market position of ECHN relative to its competitors;
- Analysis of the earning capacity of ECHN;
- Consideration of goodwill or other intangible value;
- Analysis of financial data of similar publicly-traded companies or transactions;
- Valuation analysis of ECHN utilizing accepted valuation methodologies including (as appropriate and applicable):
    - Discounted Cash Flow Method
    - Similar Transactions Method
    - Guideline Company Method
    - Adjusted Net Assets Method; and
- Analysis of other facts and data considered pertinent to this valuation to arrive at our conclusions; and

### *Valuation Approaches*

In performing our FMV analysis, we considered the three generally accepted approaches to value: income, market, and cost. The theory of these approaches is summarized as follows:

### *Income Approach*

There are several variants of the income approach. One of these variants is the discounted cash flow ("DCF") method. In the DCF method, the cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. The DCF and other prospective models are considered to be the most theoretically correct methods to valuing an income producing business because they explicitly consider the future benefits associated with owning the business.

Another income approach method is based on capitalizing some measure of financial performance such as earnings or dividends, using a capitalization rate that reflects both the risk and long-term growth prospects of the subject firm. In capitalizing a historical measure of financial performance, it is important to remember that historical results serve as a proxy for future performance. Both the required rate of return used in the DCF model and the capitalization rate reflect capital market conditions and the specific circumstances of the subject health system.

### *Market Approach*

In the market approach, the value of a business is estimated by comparing the subject business to similar businesses or "guideline" companies whose securities are actively traded in public markets or have recently been sold in a private transaction. This method is applied as the price per unit of a measure of financial performance or position, and equates to a multiple approach, using price-to-earnings before interest and taxes or similar market/transaction derived multiples applied against the appropriate financial measure generated by the subject to indicate value.

In using merger and acquisition data to develop indications of value, it is important to have adequate knowledge of the terms of the transaction to be able to make appropriate valuation judgments regarding the subject. For example, seller financing or the use of restricted stock to pay for an acquisition may require an adjustment relative to an all cash deal.

### *Cost Approach*

The cost approach estimates a business's value based on an analysis of the value of its individual assets. The adjusted net book value method involves estimating the FMV of all assets on the balance sheet, and then subtracting the estimated FMV of the liabilities. A common application of the adjusted book value method is valuing an entity whose sole function is investing in other businesses.

The Adjusted Net Assets Method represents one methodology employed in the Cost Approach. In this method, a valuation analysis is performed of a business's identified fixed, financial, and other assets. The derived aggregate value of these assets is then "netted" against the estimated value of all existing and potential liabilities, resulting in an indication of the value. An ongoing business enterprise is typically worth more than the FMV of its underlying assets due to several factors: (i) the assets valued independently may not reflect economic value related to the prospective cash flows they could

generate; (ii) this approach may not fully reflect the synergy of the assets but rather their independent values; and (iii) intangible assets inherent in the business such as reputation, superior management, proprietary procedures or systems, or superior growth opportunities are very difficult to measure independent of the cash flow they generate. The value of the assets using the Cost Approach may be perceived as providing a pricing "floor" in the absence of earnings.

***Standard of Value***

We have concluded that the appropriate standard of value for our valuation analysis is FMV. Our conclusion was based on our review of the Nonprofit Hospital Conversion Act, the nonprofit status of the ECHN, and our experience with similar transactions.

As stated previously, for the purposes of our valuation analysis, we considered the following definitions of FMV and are assuming no difference in the two definitions.

Nonprofit Hospital Conversion Act §§ 19a-486c:

> *…the most likely price that the assets would bring in a sale in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and in their own best interest, and with a reasonable time being allowed for exposure in the open market.*

IRS Revenue Ruling 59-60:

> *…the price at which an entity (asset) would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.*

FMV should be distinguished from strategic (or investment) value for the purposes of this valuation. The strategic value is the value to a specific owner or prospective owner. Therefore, strategic value considers the owner's or prospective owner's knowledge, capabilities, expectations of risks and future earnings, and other factors. An example of strategic value is when a transaction provides unique motivators or synergies to a particular buyer that is not available to the typical buyer.

### *Premises of Value*

Various premises of value may be considered under the FMV standard of value. In general, four premises of value are typically considered[13]:

1. ***Value in Continued Use, as Part of a Going Concern***

   Value in continued use, as a mass assemblage of income producing assets, and as a going concern business enterprise.

2. ***Value-in-Place, as Part of a Mass Assemblage of Assets***

   Value-in-place, as part of a mass assemblage of assets, but not in current use in the production of income, and not as a going-concern business enterprise

3. ***Value in Exchange, in an Orderly Disposition***

   Value in exchange, on a piecemeal basis (not part of a mass assemblage of assets), as part of an orderly disposition. This premise contemplates that all of the assets of the business enterprise will be sold individually and that they will enjoy normal exposure to their appropriate secondary market.

4. ***Value in Exchange, in a Forced Liquidation***

   Value in exchange, on a piecemeal basis (not part of a mass assemblage of assets), as part of a forced liquidation. This premise contemplates that all of the assets of the business enterprise will be sold individually and that they will experience less than normal exposure to their appropriate secondary market.

For our valuation analysis, we considered each of the premises of value and selected the premise that was most appropriate based on our analysis of the Health System's current and projected financial and operational outlook, as well as the most likely transaction scenario.

### *Selected Methodology*

Each of the valuation approaches described above may be used to develop an indication of the FMV of the Health System's assets; however, the appropriateness of certain approaches and the premise of value can vary depending on the specific facts and circumstances of the entity being valued, the assumed transaction, and the information available.

For service-oriented, income-producing entities, the income and market approaches are typically performed in order to estimate the FMV of a business on a going concern basis. However, for businesses that are not currently generating positive cash flow from current operations and are not projected to generate positive cash flow in the future, a going concern premise of value may not be possible. In such cases, the valuation exercise may focus on a FMV analysis under a Value-In-Place

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[13] Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, Valuing Small Businesses & Professional Practices, Third Edition, 1998, pp 46-47

or Value in Exchange premise as described above utilizing a market and/or asset-based approach.

While ECHN has experienced marginal profitability to significant net income losses historically, it has generated positive cash flow. However, in the absence of an affiliation, ECHN management projects future net income losses and continued cash flow challenges due to the need for capital expenditures to maintain and grow its asset base to remain competitive and to meet community needs.

Based on our analysis and discussions, we concluded that ECHN and its assets should be valued under the premise of **Value-In-Continued Use, as Part of a Going Concern**. In addition, we performed a supplemental asset-based valuation approach to add additional support that the hospital will receive at least FMV for its assets under the Proposed Transaction. Accordingly, all valuation methods and approaches, including the income and market approaches, were considered in our FMV analysis of ECHN.

***Valuation Analysis***

In completing our valuation analysis, we performed the three generally accepted approaches to value: income, market, and cost. The detail regarding each of these approaches is outlined in the section below:

***Income Approach***

*Discounted Cash Flow Method*

The DCF method estimates the FMV of an entity based on expected future economic benefits discounted to present value at a rate of return commensurate with the risk of the investment. ECHN management provided information and assumptions upon which projections for the ECHN are based. Projected debt-free net cash flows ("DFNCF") for ECHN were discounted to present value using an estimated weighted average cost of capital ("WACC"), reflecting returns to both equity and debt investors. Debt-free net cash flow is defined as:

+ Debt-Free Net Income
+ Depreciation and Amortization
- Capital Expenditures
+/- Changes in Net Working Capital Requirements
= Debt-free Net Cash Flow

The annual DFNCFs during the discrete projection period are discounted to present value. Under the premise of a going concern, the cash flow stream of the business is expected to continue for the foreseeable future. The stabilized cash flow (or terminal value) attributable to the business enterprise is estimated, capitalized and discounted back to present value. The sum of the discounted annual net cash flows plus the terminal year value represents the FMV of the subject business enterprise.

The terminal value represents the prospective value at the end of the discrete time period and is calculated by dividing the net cash flow available for distribution in the terminal year by an appropriate capitalization rate, which assumes a constant growth rate into perpetuity. This calculation is known as the Gordon Growth Model and is shown arithmetically below:

$$TV = \frac{CF_t}{K - g}$$

where:

TV = Terminal Value
CFt = Normalized DFNCF
K = Discount Rate (WACC)
g = Sustainable Long-Term Growth Rate

*DCF Assumptions*

In developing projections, we relied upon financial projections provided by ECHN management. The following details the assumptions used in determining after-tax debt free net income:

*Revenues*

Our revenues projections are detailed in Exhibit B-3 and summarized as follows:

- Revenue projections for the years 2016 through 2019 were provided by management. In our analysis, we separately valued ECHN's joint venture interests using the market approach. Accordingly, we excluded Management's forecast of income from joint venture interests from the projected revenue stream.

- Net patient revenue is projected to be $290 million in 2016, $299 million in 2017, $306 million in 2018 and $312 million in 2019.

- Other operating revenue is projected to remain flat over the forecast horizon at $12.9 million, while net assets released from restrictions is projected to be $648 thousand in 2016, and $275 thousand each year thereafter through 2019.

*Expenses*

- Projected operating expenses were provided by Management. Overall, operating expenses are projected to be approximately 96 percent of revenues over the forecast horizon, as compared to 96 to 98 percent of revenues in the years 2013 through 2015.

*Capital Expenditures and Depreciation*

Capital expenditure estimates were based on comparison to guideline company levels and discussions with Management regarding current and future capital expenditure needs. Based on peer comparisons, capital expenditure levels generally run between 5 and 6 percent of net revenues. However, given the limitations of ECHN's available cash flow to finance debt repayment and other cash operating needs, we have projected a 1.5% annual capital expenditure level. Projections of depreciation were based on age and life estimates of existing fixed assets and future capital expenditures. Our capital expenditure and depreciation forecast is detailed in Exhibit B-5.

*Income Taxes*

Though ECHN is a non-profit corporation, its earnings stream was tax affected given that likely market participants would be for-profit corporations subject to taxes. Accordingly, the value to a willing buyer would need to consider income taxes in the cash flow projections. Income taxes were estimated to be 40.9% based on a blending of federal and Connecticut state corporate income tax rates.

*Working Capital Requirements*

Based on an analysis of guideline companies and the ECHN's historical trends in cash-free, debt-free working capital, we estimated working capital requirements to be approximately 9.0% of the change in total net revenue.

*Perpetuity Growth Rate*

Based on an analysis of the industry and discussions with ECHN management, a sustainable long-term revenue growth rate of 2.0 percent was assumed for the perpetuity cash flow calculation.

*Discount Rate - Weighted Average Cost of Capital ("WACC")*

The magnitude of a discount rate is related to the perceived risk of the investment as well as current capital costs. The concept of risk involves an investment situation, which lies between complete certainty of monetary return (no risk), and complete uncertainty of monetary return (infinite risk). When an investor contemplates two investments, each having the same expected monetary return, an investor would prefer the investment bearing the least risk. Therefore, the higher the risk, the higher the expected return.

The WACC measures the costs of debt and equity weighted by the percentage of debt and percentage of equity in a company's estimated target capital structure. The formula for calculating an after-tax WACC is:

$$WACC = \left(K_D \times (1 - t) \times \frac{D}{V}\right) + \left(K_E \times \frac{E}{V}\right)$$

| SYMBOL | DESCRIPTION |
|---|---|
| **Kd** | Cost of debt financing |
| **Ke** | Cost of equity financing |
| **D** | Estimated market value of debt |
| **E** | Estimated market value of equity |
| **V** | Value of total invested capital (debt plus equity) |
| **T** | Assumed tax rate |

*Cost of Equity*

The Capital Asset Pricing Model ("CAPM")[14] was utilized to estimate the return required by investors given a company's risk profile. The model is deployed arithmetically by the following equation:

$$K_E = r_f + (\beta \times rp_m) + R_c + R_s$$

| SYMBOL | DESCRIPTION |
|---|---|
| **Ke** | **Cost of equity financing** |
| **Rf** | **Risk-free rate of return**: A risk-free rate of return is generally measured by the rate of return on U.S. Treasury securities. The yield on the 20-year U.S. Treasury security as of the Valuation Date was 2.20 percent.[15] |
| **β** | **Beta**: Beta is a measure of systematic risk, which represents the covariance of the rate of return on the subject company with the rate of return on the market. A beta coefficient of 1.00 implies that a company's return varies directly with the overall market. The unlevered beta chosen for ECHN was 0.66, based on an analysis of publically traded companies. After re-levering this beta based on ECHN's capital structure, the indicated beta coefficient was 1.05. |
| **Rpm** | **Market equity risk premium**: This premium is the excess of the market rate of return over the risk-free rate that investors have historically demanded for an investment in equities. Quantification of the market premium has been the subject of much research by security analysts. Findings stemming from the SBBI Cost of Capital Yearbook, 2015, indicate the total rate of return on large capitalization common stocks using supply side estimates exceeded the risk-free rate by an average of 6.19 percent for a long-term horizon.[16] |
| **$R_C$** | **Small company stock premium**: This premium is the average premium in excess of the cost of equity derived from the CAPM that the overall market investor requires to invest in a business with low market capitalization. Based on our analysis, the Company was categorized in the 10th decile for companies with market capitalization below $302 million using the SBBI Cost of Capital Yearbook, 2015. Therefore, we applied the 5.78 percent small stock premium.[17] |
| **$R_S$** | **Company specific risk premium**: This premium represents the additional risk specific to an investment in a company. We added a company specific risk premium of 5.0 percent to the cost of equity of ECHN to account for relatively low margins, ability to meet capital expenditure needs, state government payment uncertainty, and concentration of services in two markets. We believe that the selected company specific risk premium is appropriate due to the risk inherent in management's forecast of cash flows. |

[14] W.F. Sharpe, "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk," *Journal of Finance*, 19:425-442 (September 1964); J. Linter, "The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets," *Review of Economics and Statistics*, 47:13-37 (February 1965).

[15] Source: Federal Reserve Statistical Release, H.15, March 31, 2016.

[16] Source: Ibbotson Associates, Stocks, Bonds, Bills, and Inflation 2015 Yearbook.

[17] Source: Ibid

Based on the variables presented above, the rate of return on equity capital was calculated as follows:

Ke = 2.20%+ (1.05 * 6.19%) + 5.78% + 5.00%

= 19.5%

*Cost of Debt*

The pretax cost of debt for ECHN was determined based on the Baa corporate bond equal to 4.90%, as of the Valuation Date. As interest expense is deductible for income tax purposes, the pretax cost of debt was tax-affected to derive an after-tax cost of debt.

The rate of return on debt capital is calculated as follows:

Kd = 4.90% * (1 – 40.9%)

= 2.9%

*Capital Structure*

The estimated proportion of debt and equity financing is an important component of the WACC calculation. The capital structure was assumed to be 50.0 percent debt and 50.0 percent equity based on an analysis of the capital structures of publically traded companies in the same industry as ECHN.

The implied WACC of 11.0 percent was utilized to discount the future cash flow projections of the Center to the present value.

***Joint Venture Analysis***

As discussed in Section II, ECHN has several joint venture interests which are accounted for under the equity method of accounting. As of September 30, 2015, these interests were carried on the books at $18.2 million. To value the joint ventures, we relied on the market approach. We removed the income stream related to the joint ventures from our DCF forecast and applied relevant BEV/EBITDA multiples to each of ECHN's investment's share in EBITDA.

The multiples selected were based on a review of transaction data within the industry associated with each investment, and valuator experience. The details of this analysis can be found in Exhibit F-4. Additionally, several of ECHN's joint venture interests were real estate assets. The valuation of these assets is detailed in Exhibit F-3. Based on our analysis, the concluded value of ECHN's non-real estate joint venture interests was determined to be $13.2 million, while real estate related joint venture interests were determined to be $1.8 million.

*Estimated Value Discounted Cash Flow Method*

Based on the DCF method, as shown in Exhibit B-1, the indicated BEV value of ECHN including the value of joint ventures, on a marketable, controlling interest basis is $63,750,000 (rounded).

***Market Approach – Guideline Company Method Overview***

In our application of the guideline company method, we considered valuation multiples derived from public guideline companies that were identified as belonging to a group of industry peers and then calculated and applied selected multiples to ECHN's historical and projected financial metrics.

*Guideline Company Research*

In applying the guideline company method, we focused on identifying companies that operate in the same or a similar line of business as ECHN. We analyzed comparable companies with significant operations involving general acute-care hospitals.

Based on the above search criteria, we identified five companies as being comparable to ECHN to employ in our analysis. It should be recognized that it is impossible to identify publicly traded companies with operations that are identical to that of the ECHN, as no two companies are exactly alike. For purposes of our analysis, the guideline companies selected represented similar, but alternative investment opportunities to an investment in ECHN. The companies selected were not pure play comparable to ECHN primarily due to size and geographic diversification differences.

*Application of the Guideline Company Method*

After identifying the guideline company, we developed market-based valuation multiples related to BEV-to-TTM revenue and BEV-to-TTM EBITDA.

The application of the guideline company method includes: (i) the identification of reasonably similar publicly-traded companies operating in the same or a similar industry as ECHN as discussed above; (ii) analysis of the guideline companies' financial and operating performance relative to ECHN; (iii) calculation of market multiples for the selected guideline companies; (iv) adjustment of the market multiples for differences between the guideline companies and ECHN; and (v) application of the market multiples to ECHN's fundamentals to arrive at an indication of FMV.

The BEV-to-TTM revenue of our guideline companies ranged between 0.9 x and 1.7x with a median BEV-to-TTM revenue multiple of 1.0. The BEV-to-TTM EBITDA of our guideline companies ranged between 7.9x and 9.3x with a median BEV-to-TTM EBITDA multiple of 8.5x. BEV-to-NTM revenue multiples ranged from 0.8x to 1.5x with a median of 1.0x while BEV-to-NTM EBITDA multiples ranged from 6.7x to 8.9x with a median of 7.5x.

In our selection of the multiples, we also considered the comparability of the guideline company relative to ECHN and made adjustments for ECHN's size, geographical concentration in the state of Connecticut, and profitability. Based on our analysis, we applied a BEV-to-TTM EBITDA multiple of

4.6x and a BEV-to-NTM EBITDA multiple of 4.3x. We applied a BEV-to-TTM Revenue multiple of 0.2x and a BEV-to-NTM Revenue multiple of 0.2x.

*Estimated Value by Guideline Company Method*

Application of the multiples discussed above resulted in an estimate of value for the business enterprise of ECHN. The values represent the value of ECHN on a marketable, non-controlling interest basis.

In order to determine the value of ECHN on a marketable, controlling basis we applied a control premium of 10.0%, based on an analysis of control premiums paid in recent transactions in the industry, to arrive at an indicated business enterprise value for ECHN on a marketable, controlling basis. We then added the value of joint venture interests. Based on our analysis, as illustrated in Exhibit C-2, the indicated BEV of ECHN on a marketable, controlling basis, as of the Valuation Date, is approximately $70,344,000 (rounded).

***Market Approach – Similar Transaction Method Overview***

In our market approach analysis of ECHN, we also considered the Similar Transaction Method. The Similar Transaction Method is a market approach in which the FMV of a business is estimated by analyzing the prices at which companies similar to the subject have sold in controlling interest transactions (mergers and acquisitions). Target companies are compared to the subject company, and multiples paid in transactions are analyzed and applied to subject company data resulting in value indications. Similarity can be affected by, among other things, the product or service produced or sold, geographic markets served, competitive position, profitability, growth expectations, size, risk perception, and capital structure.

*Similar Transaction Research*

In applying the similar transaction method, we screened companies using published data the Irving Levin Transaction Database based on the following criteria: (i) transactions in the similar service line model; (ii) transactions occurring during the four years that preceded the Valuation Date; (iii) acquired interests representing a majority of common equity to reflect a controlling interest level of value; and (iv) with publicly available transaction information.

In our search, we identified one hundred and thirty-eight relevant transactions with published transaction data. However, all of the transactions were at least four years distant from the Valuation Date. We calculated a range of BEV-to-TTM Revenue and BEV-to-TTM EBITDA multiples produced under the transaction method. For the identified comparable transactions, the BEV-to-TTM Revenue multiples ranged from 0.0x to 9.0x with a median of 0.6x and the BEV-to-TTM EBITDA multiples ranged from 0.2x to 52.7x with a median of 9.1x. We additionally segmented the transaction data by date, revenues and profitability. Based on our analysis, we selected a BEV-to-TTM EBITDA multiple of 4.9x and a BEV-to-TTM Revenue of 0.2x. Our multiple selection was based on ECHN's lower profitability levels and growth prospects.

*Estimated Value – Similar Transaction Method*

We applied the selected multiple to ECHN's fundamentals to determine an indication of the value of ECHN's BEV on a marketable, controlling basis. We then added the estimated value of ECHN's joint venture interests. Based on our analysis, as illustrated in Exhibit C-1, the indicated BEV of ECHN on a marketable, controlling basis, as of the Valuation Date, is approximately $73,091,000.

***Supplemental Asset-Based Valuation Approach***

Navigant performed a supplemental asset-based valuation analysis to further support our overall assessment that PMH was not paying less than fair market value for ECHN's assets. As summarized previously, the premise of Value-in-Place assumes that all assets will continue to be used in the manner for which it/they was/were originally intended which is consistent with the prospective buyer's stated intent to operate the Health System's hospitals as general acute care hospitals with similar levels and types of services.

In order to estimate the FMV of the Health System's assets under the premise of Value-in-Place, we performed an independent fair market valuation of the Health System's real and personal property and added this to the Health System's current net working capital balance as of August 31, 2014. Please refer to Appendix C and D for details of Navigant's real and personal property FMV analyses. Summary of each analysis is provided in Exhibits F-2 and F-3. We then added the value of ECHN's joint ventures and the projected value of net working capital as of the valuation date of $21,130,000.

*Intangible Assets*

As part of Navigant's overall valuation analysis, we considered the potential for intangible assets that could be identified and valued, including under a Value-in-Place premise of value. One intangible asset could possibly include the Health System's CON licenses. However, we understand that the Health System's CON licenses are not separable or transferrable apart from the Health System's real property. Accordingly, we determined the value of ECHN on a Value-In-Place premise did not support an intangible asset value of the CON licenses apart from the Health System's real property.

*Asset-Based Conclusion*

Based on a valuation of the Health System's assets under the premise of Value-In-Place, the indicated value of ECHN's business enterprise is approximately $101,847,000. A summary of the analysis is provided in Exhibit F-1.

*Fair Market Valuation Conclusion*

We primarily relied on the Discounted Cash Flow Method in order to estimate the FMV of ECHN and related affiliates with corroborative value indications from two market-based valuation methods. Based on our review of information provided to us, independent research and analysis, and our informed judgment, we estimate the FMV of the Health System's assets as follows:

| Summary of Fair Market Value<br>Going Concern Premise of Value | Weighting | FMV |
|---|---|---|
| Discounted Cash Flow | 100% | $63,750,000 |
| Guideline Company Method | 0% | 70,344,000 |
| Similar Transaction Method | 0% | 73,091,000 |
| Unadjusted ECHN Business Enterprise Value | | $63,750,000 |
| Less: Net Working Capital Adjustment | | (2,870,000) |
| **FMV of ECHN Business Enterprise (Going Concern)** | | **$60,880,000** |

The consideration provided by Prospect to ECHN is summarized below:

| Summary of Consideration | | As of 2/29/2016 |
|---|---|---|
| Purchase Price | (1) | $105,000,000 |
| Working Capital Adjustment | (1) | (2,870,000) |
| **Total Consideration** | | **$102,130,000** |

(1) Per Asset Purchase Agreement. Working capital adjustment calculated as working capital contributed less targeted working capital of $24.0M.

**As the purchase price of $105 million adjusted for the $2.9 million working capital deficit adjustment exceeds our estimated FMV indications, we conclude that ECHN will receive FMV for the Health System assets, as of the Valuation Date.**

## *IV. FAIR MARKET VALUATION MANIPULATION ANALYSIS*

In this section, Navigant will address:

*Whether the fair market value of the nonprofit hospital's assets have been manipulated by any person in a manner that causes the value of the assets to decrease.*

### *Findings and Conclusions*

**Based on our analysis of ECHN's financial position and operations, as well as observations during our valuation and transaction analysis process, we found no indication that ECHN's assets have been manipulated by any person in a manner that causes the value of the assets to decrease.**

## *V. FINANCING ANALYSIS*

In this section, Navigant will address:

*Whether the financing of the transaction will place the nonprofit hospital's assets at an unreasonable risk.*

### *Findings and Conclusions*

**PMH will not incur any debt financing to consummate the transaction. As such, there is no financing that would place the Health System's assets at unreasonable risk.**

**The proceeds from the Proposed Transaction will result in the settlement of ECHN's bond liabilities and other outstanding indebtedness. In addition, PMH will assume ECHN's unfunded pension liabilities, health benefit plan for retirees, captive insurer liabilities, and workers' compensation obligations. Any remaining proceeds will be used to settle post-closing liabilities and wind down the operations of ECHN.**

**PMH agreed to increase the purchase price for the assets by $10 million in the event that ECHN does not have sufficient cash to close the transaction, which increase would be offset by a corresponding reduction in the $75 million capital commitment amount.[18].**

[18] As described in ECHN and PMH's Certificate of Need Application dated October 13, 2015 and supplemental responses to completeness letters dated November 23, 2015 and December 24, 2015.

## *VI. MANAGEMENT CONTRACT VALUATION ANALYSIS*

In this section, Navigant will address:

*Whether any management contract contemplated under the transaction is for reasonable fair value.*

### *Findings and Conclusions*

**It is not currently anticipated that there will be a management contract between PMH and ECHN as of the closing. Therefore, it was not necessary to perform a management fee valuation analysis[19].**

[19] Ibid.

## APPENDIX A: SOURCES OF INFORMATION

We have relied upon sources including, but not limited to the following:

- Selected audited and unaudited operational and financial data of ECHN;
- The ECHN and Prospect Medical Holdings Certificate of Need Application for a Proposed Asset Purchase dated October 13, 2015 (the "Application") and in particular Response 5 (pp 35-43) that described the process undertaken by ECHN in pursuing a strategic partner and eventually the Proposed Transaction;
- The supplemental responses to the Application completeness letters dated November 23, 2015 and December 24, 2015;
- Draft Asset Purchase Agreement between Eastern Connecticut Health Network, Inc. and Prospect Medical Holdings, Inc.;
- Supplemental presentation by Prospect Medical Holdings dated March 28, 2016 and presented at the ECHN public hearings on March 29 & 30, 2016;
- Engagement Letter between Chartis Group and ECHN dated January 16, 2012;
- Engagement Letter between Duff & Phelps, LLC an ECHN dated August 14, 2015;
- Duff & Phelps' Fairness Opinion Letter and related "Eastern Connecticut Health Network Fairness Analysis" presentation dated September 9, 2015;
- Selected transaction and regulatory documents, including letter of intent, asset purchase agreement, initial and supplemental completeness question responses; and PMH's Certificate of Need application;
- In-person interviews with ECHN Management and Chairman of the Board:
  - Dennis McConville, SVP & Chief Strategy Officer
  - Peter Karl, President & CEO
  - Joy Dorin, Vice Chair Board of Trustees
  - Dr. Dennis O'Neill, Chairman of the Board of Trustees
  - Joyce Tichy, SVP & Chief Legal Counsel
  - Mike Veillette, SVP & CFO
- Telephone interviews with ECHN legal and financial advisors:
  - Rebecca A. Matthews, Wiggin & Dana LLP
  - Chris Regan, The Chartis Group
  - Keith Dickey, The Chartis Group
  - Todd Kaltman, Duff & Phelps
  - Nick Tarditti, Duff & Phelps

- “Selected Interest Rates,” Federal Reserve Statistical Reserve;
- “Economic Outlook Update Q4, 2015” Business Valuation Resources;
- Capital-IQ;
- U.S. Bureau of the Census;
- IBISWorld Industry Report, Hospitals in the US, August 2015;
- Selected Internet sites; and
- Other sources, as noted.

## APPENDIX B: ASSUMPTIONS AND LIMITING CONDITIONS

1. **Report Distribution** – This report has been prepared solely for the purpose stated in our engagement letter and should not be used for any other purpose. Except as specifically stated in the report, neither our report nor its contents is to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our prior written approval. In addition, except as set forth in the report, our analysis and report presentation are not intended for general circulation or publication, nor are they to be reproduced nor distributed to other third parties without our prior written consent.
2. **Scope of Analysis** – The appraisal of any financial instrument or business is a matter of informed judgment. The accompanying appraisal has been prepared on the basis of information and assumptions set forth in the attached report, associated appendices, our underlying work papers, and these limiting conditions and assumptions.
3. **Nature of Opinion** – Neither our opinion nor our report are to be construed as a fairness opinion as to the fairness of an actual or proposed transaction, a solvency opinion, or an investment recommendation, but, instead, are the expression of our determination of the fair market value of the underlying assets and liabilities between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction on an assumed valuation date. For various reasons, the price at which the assets and liabilities might be sold in a specific transaction between specific parties on a specific date might be significantly different from the fair market value as expressed in our report.
4. **Going Concern Assumption, No Undisclosed Contingencies** – Our analysis: (i) assumes that as of the valuation date the Company and its assets will continue to operate as configured as a going concern; (ii) is based on the past and present financial condition of the Company and its assets as of the valuation date; and (iii) assumes that the Company had no undisclosed real or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business, nor had any litigation pending or threatened that would have a material effect on our analysis.
5. **Lack of Verification of Information Provided** – With the exception of audited financial statements, we have relied on information supplied by the Company without audit or verification. We have assumed that all information furnished is complete, accurate and reflects Management's good faith efforts to describe the status and prospects of the Company at the valuation date from an operating and a financial point of view. As part of this engagement we have relied upon publicly available data from recognized sources of financial information, which have not been verified in all cases.
6. **Reliance on Forecasted Data** – Any use of Management's projections or forecasts in our analysis does not constitute an examination or compilation of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"). We do not express an opinion or any other form of assurance on the reasonableness of the underlying assumptions or whether any of the prospective financial statements, if used, are presented in conformity with AICPA presentation guidelines. Further, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected and these differences may be material.

7. **Subsequent Events** – The terms of our engagement are such that we have no obligation to update this report or to revise the valuation because of events and transactions occurring subsequent to the Valuation Date.
8. **Legal Matters** – We assume no responsibility for legal matters including interpretations of either the law or contracts. We have made no investigation of legal title and have assumed that owner(s) claim(s) to property are valid. We have given no consideration to liens or encumbrances except as specifically stated. We assumed that all required licenses, permits, etc. are in full force and effect. We assume no responsibility for the acceptability of the valuation approaches used in our report as legal evidence in any particular court or jurisdiction. The suitability of our report and opinion for any legal forum is a matter for the client and the client's legal advisor to determine.
9. **Testimony** – Neither Navigant Consulting, Inc. nor any individual signing or associated with this report shall be required to give testimony or appear in court or other legal proceedings unless specific arrangements have been made in advance.
10. **USPAP** – Unless otherwise stated in our opinion, our engagement is not required to be conducted pursuant to the Uniform Standards of Professional Appraisal Practice.
11. **Verification of Legal Description or Title** – As part of this engagement, we will not assume any responsibility for matters of a legal nature. No investigation of legal description or title to the property will be made and we will assume that your claim to the property is valid. No consideration will be given to liens or encumbrances which may be against the property, except as specifically stated as part of the financial statements you provide to us as part of this engagement. Full compliance with all applicable federal, state, local zoning, environmental and similar laws and regulations is assumed, unless otherwise stated and responsible ownership and competent property management are assumed.

## APPENDIX C: PERSONAL PROPERTY VALUATION

***Definition of Value***

The standard of value used in the valuation of the personal property is Fair Market Value. Fair Market Value is defined as "the estimated amount that may be reasonably be expected for a property, in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date.

***Fair Market Value In-Place***

Fair Market Value In-Place assumes the use of the assets in the ongoing business and therefore includes all normal direct and indirect costs (such as installation and other assemblage costs) to make the property fully operational. Under the premise of Fair Market Value In-Place, we included certain capitalized costs in our valuation such as installation, freight, engineering costs, electrical set-up costs, and other assemblage costs that would be required to make the personal property fully operational.

**Approaches to Value**

Three approaches are considered in the valuation of personal property: the Cost, Income, and Market (or Sales Comparison) Approaches. The application of each of these approaches is dependent upon the nature of the assets, the availability of appropriate information, and the scope of the analysis. Based on the value indications derived from the application of appropriate methodologies, an opinion of value is estimated using expert judgment within the confines of the appraisal process. Summary descriptions of the three approaches typically used in the valuation of tangible assets are provided in the following paragraphs:

***Cost Approach***

The Cost Approach recognizes that a prudent investor would not ordinarily pay more for an asset than the cost to replace it new. The first step is to estimate the reproduction/replacement cost new of an asset using current materials, prices, and labor. Reproduction cost and replacement cost are defined as follows:

> Reproduction Cost is the estimated cost to construct, at current prices, an exact duplicate (or replica) of the asset being appraised, using the same materials, construction standards, design, layout and quality of workmanship, and embodying all the subject's deficiencies, super-adequacies, and obsolescence.
>
> Replacement Cost is considered to be the cost of substituting an asset with another asset having equivalent functional utility as the asset being appraised.

The cost new is then reduced by the amount of depreciation resulting from physical deterioration, functional obsolescence, and economic/external obsolescence which are inherent in the asset. The resulting depreciated replacement cost is an indication of the Fair Market Value of an asset providing all elements of depreciation are addressed. The factors of depreciation are defined in the following paragraphs:

> Physical Depreciation as a result of age and wear can be divided into curable and incurable. Curable physical deterioration is a loss in value which can be recovered or offset by repairing or replacing defective items causing the loss, provided that the resulting value increase equals or exceeds the cost of work. Incurable physical deterioration is a loss in value which

cannot be offset or which would involve a cost to correct greater than the resulting increase in value.

Functional Obsolescence is any loss in value resulting from inappropriate design, inefficient process flow, poor construction or layout for the intended use, and changes in the technical state-of-the-art. Functional obsolescence may be either curable or incurable.

Economic/External Obsolescence relates to the loss in value that occurs from factors external to the assets.

***Market Approach***

The Market (Sales Comparison) Approach estimates value based on what other purchasers and sellers in the market have agreed to as prices for comparable assets. This approach is based on the principle of substitution which states that the limits of prices, rents, and rates tend to be set by the prevailing prices, rents, and rates of equally desirable substitutes. In conducting the Market Approach for the valuation of the personal property, we gather data on reasonably substitutable assets and make adjustments for such factors as market conditions, location, conditions of sale, income characteristics, etc. The resulting adjusted prices lead to an estimate of the price one might expect to realize upon sale of the asset.

The sales comparison approach was used to value the Subject Assets, in cases where asset/data information was readily available. Adjustments were considered based on the following elements of the comparable transaction data:

- Vintage
- Effective Age
- Condition
- Capacity
- Features
- Manufacturer
- Price
- Quality
- Quantity
- Date of sale
- Type of sale
- Assemblage Costs

We contacted used equipment sellers, researched various websites, and publications to gather information regarding recent transactions and offerings of comparable assets. Similar transactions and offering prices were adjusted, as appropriate, to arrive at an estimation of the fair market value of the Subject Assets.

***Income Approach***

The Income Approach is a valuation technique by which Fair Market Value is estimated based upon the cash flows that the subject asset can be expected to generate over its remaining useful life.

***Approaches Utilized***

The Cost and Market Approaches were utilized to value the Subject Assets depending on the quality and the quantity of information available related to the specific asset employed. The Income

Approach was considered but not utilized in valuing the Subject Assets due to the difficulty in allocating the revenue or income streams of a business enterprise to a specific asset employed.

***Sources of Information***

The sources of information used in our valuation of the Personal Property included the following:

- Fixed asset record ("FAR") provided by Management with historical cost and acquisition date information;
- Third party inventory of the Subject Assets with information such as Location, Department, Room, Barcode Asset Number, Floor, Asset Description, Manufacturer, Model No.
- Historical invoices of personal property assets for major assets;
- Capital leases;
- Equipment maintenance contracts;
- Electronic medical record and third party software specifications;
- Data center equipment hardware specifications;
- Health System floor plans;
- Photographs of personal property
- Physical inspection of a sampling of the assets in order to verify fixed asset records and to determine the quality, condition, and utility of the personal property.
- Discussions with Management to obtain an explanation and clarification of the data provided and to obtain additional data and descriptions of the history and future operations of the Personal Property.

We relied on this data as fairly representing the Subject Assets. We have not audited the inventory in the course of our valuation assignment. We relied on this information in:

- Identifying the assets to be valued, acquisition dates and historical costs of the assets to be valued;
- Estimating reproduction cost new and age/life based depreciation;
- Supporting information regarding the condition and operational status of the equipment;
- Identifying certain capitalized costs that would not have resale value to third-parties; and
- Overall support of the value calculations relating to the Subject Assets.

We did not consider supplies, materials on hand, or working capital as part of our analysis. Inventory was estimated at cost based on the value on the balance sheet. Our analysis is limited only to the assets described above.

***Assets Valued***

The personal property assets valued ('Subject Assets") are located at the following entities of Eastern Connecticut Health Network:

- Manchester Memorial Hospital
- Rockville General Hospital
- ECHN ElderCare Services, Inc.

The assets can be categorized within the following general asset classifications:

- Computer Equipment – includes, but not limited to, servers, desktops, laptops,

monitors, printers, network equipment, etc.

- Furniture & Fixtures – includes, but not limited to, patient beds, chairs, tables, book shelves, book cases, cabinets, carts, couches, desks, file cabinets, etc.
- Kitchen Equipment – includes, but not limited to, ovens, refrigerators, coolers, fryers, broilers, freezers, stoves, toasters, salad bars, skillets, water coolers, etc.
- Machine Tools – includes, but not limited to, hand drills, grinders, planers, routers, sanders, hoists, jack hammers, jig saws, knife sharpeners, nail guns, saws, tool boxes, welders, etc.
- Medical Equipment - includes all medical equipment and devices such as nuclear imaging equipment, surgical equipment & instrumentation, radiology equipment, nuclear imaging equipment, X-ray machines, ultrasound equipment, fetal monitors, defibrillators, laboratory equipment, anesthesia equipment, EKG equipment, etc.
- Office Equipment – includes, but not limited to, copiers, faxes, telephones, etc.
- Other Equipment– includes, but not limited to, televisions, security cameras, exercise equipment, floor scrubbers, snow blowers, humidifiers, time clocks, etc.

***Scope of Services***

In our valuation analysis, the following steps were performed:

- Conducted hospital site visit to collect equipment information for the Subject Assets such as capacity, type, manufacturer, model, vintage, etc. The verification of major assets was performed through the site visit, gathering equipment listings at the department level, and discussions with department personnel in order to verify the fixed asset inventory listing and to estimate the quality, condition, and utility of the personal property;
- Reviewed the fixed asset inventory listing, and other documentation for the equipment and contents;
- Estimated the current cost of and the cost to install the personal property;
- Conducted industry research of personal property to estimate the replacement cost, obsolescence, and remaining useful life based on asset type, utility, quality and age;
- Held discussions with equipment vendors and distributors of similar pre-owned, refurbished and/or new personal property to determine the market value of assets and compare research results with data from published sources to determine reasonableness;
- Analyzed all the facts and data compiled resulting in a conclusion of value.

Tim Lubbe inspected the Subject Assets at:

- Manchester Memorial Hospital; 71 Haynes Street, Manchester, CT;
- Rockville General Hospital, 31 Union Street, Vernon, CT
- Evergreen Imaging Center, 2800 Tamarack Ave., Suite 002South Windsor, CT
- John DeQuattro Cancer Center, 100 Haynes Street Manchester, CT
- Sterilization Center_460 Hartford Vernon CT- Dialysis
- Tolland Imaging Center, 6 Fieldstone Commons, Tolland, CT
- Women's Wellness Center - 2600 Tamarack- South Windsor, CT
- Woodlake at Tolland Nursing Facility-26 Shenipsit, Tolland CT

***Valuation Procedures***

Our valuation analysis involved a depreciated cost study of the assets. In order to utilize the cost approach, we used the fixed asset schedule and available historical invoices as accurately representing the assets to be appraised. No adjustments were made to historical costs or in-service dates.

The cost approach establishes reproduction/replacement cost estimates for the assets and was applied using direct and indirect methods. Direct costing relies on standard pricing media or quotations from equipment suppliers, original manufacturers and other industry sources. We applied the direct cost approach to Subject Assets depending on the quality and quantity of asset data/information. Based on the compiled data, we estimated a Replacement Cost New for the property on an uninstalled basis. Installation costs and other indirect costs were added, as appropriate.

We primarily used the indirect approach to value the assets. Indirect costing is the application of inflation indices to historical costs to estimate Reproduction Cost New. The indirect approach will index the historical cost data to provide an estimate of replacement cost new, using cost indices which reflect changes in equipment costs, and installation costs over time. These indices reflect the increase in cost on an asset-specific basis. After replacement cost new for the assets has been developed, depreciation estimates were made based on the relationship of age, as indicated from fixed asset records, condition, functional and economic obsolescence.

We reconciled the various approaches to conclude on one estimate of value for each of the assets and made adjustments to arrive at an indication of value under the presumption of installed and in-place. In valuing the Subject Assets, for items in which there was an active secondary market and recent sales comparables exist, the sales comparison approach was utilized. In instances where market data was available, but deemed too incomplete to apply the sales comparison approach, we used the market relationship data available to support the cost approach analysis. In instances where a Subject Asset is found to have no used market resale exposure, we utilized the cost approach.

Our analysis is limited only to the Subject Assets described above. We investigated the market from both a replacement cost and sales comparable standpoint. Our final conclusions take into account that the Personal Property was (with the exception of items identified by the client as idle or disposed) fully functional and operable and was utilized in its highest and best use in an efficient manner to be expected for the type of equipment (unless noted otherwise by the Client).

We express no opinion or other form of assurance regarding the inventory data accuracy, completeness, or fairness of representation. Our valuation of the personal property considers a value-in-place concept. Based on the analysis described in this report, we estimated the Fair Market Value In-Place of the Personal Property to be approximately $38.9 million as of the Valuation Date (before the capital lease liability of $6.84 million) and $32.0 million after the capital lease liability. (See the next section for a summary of the value by category).

Sample Equipment Photographs

Nuclear Gamma Camera at Manchester Memorial Hospital

Data Center Equipment at Manchester Memorial Hospital

CT Scanner at Manchester Memorial Hospital

Operating Room/ Da Vinci Robot Equipment at Manchester Memorial Hospital

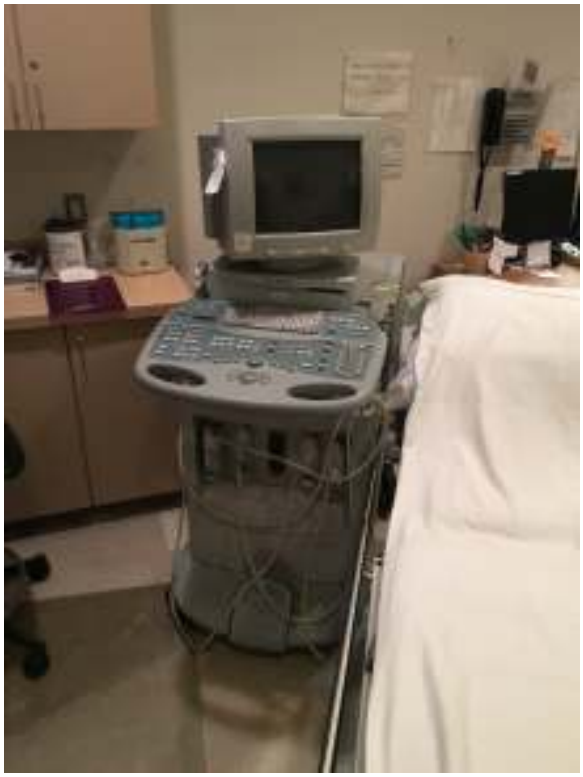
Medical Imaging Equipment at Rockville General Hospital

2-D Mammography Machine at Rockville General Hospital

C-Arm Equipment at Rockville General Hospital

Ultrasound Equipment at Rockville General Hospital

CT Scanner at Evergreen Imaging Center



Ultrasound Equipment at Evergreen Imaging Center

Woodlake at Tolland Nursing Facility

Woodlake at Tolland Nursing Facility

## APPENDIX D: REAL PROPERTY VALUATION

- Nature of the Assignment
- Property Identification
- Scope of work, definitions and history
- Description of locations
- Highest and Best Use
- Methodologies
- Analysis
  - Major real estate
    - Manchester Memorial Hospital
    - Rockville General Hospital
    - 460 Hartford Turnpike
    - Woodlake at Tolland – Skilled Nursing
  - Minor nonessential real estate
  - Joint Venture real estate

***Nature of the Assignment***

The real estate is analyzed to opine on fair market value of these fixed assets as a part of a larger valuation of the business entity being acquired. This appendix only address the real estate assets. Given the breadth of the real estate owned, the focus of the analysis is on the larger properties given the greatest materiality. The valuation of the smaller real estate properties is done with the use of recent historic appraisals, recent acquisitions and available public records.

***Property Identification***

The subject of this real estate analysis is that real estate owned by ECHN. This includes major real estate assets such as the Manchester Memorial Hospital (MMH), the Rockville General Hospital (RGH), the Woodlake at Tolland (WAT) owned by ECHN ElderCare Services and 460 Hartford Turnpike in Vernon, CT. In addition there are a number of small medical office buildings, small general office buildings, single-family residential properties surrounding MMH and RGH, as well as vacant land parcels. Furthermore, ECHN has ownership in four real estate focused joint ventures.

The following is a list of the properties owned by ECHN

| REAL ESTATE PROPERTY SUMMARY | | | | |
|---|---|---|---|---|
| **Address** | **City** | **Property Type** | **Size (SF)** | **Land (acres)** |
| 71-80 Haynes Street (MMH) | Manchester | Hospital and parking | 527,224 | 15.40 |
| 31 Union St (RGH) | Vernon | Hospital | 177,348 | 7.95 |
| 460 Hartford Turnpike | Vernon | Medical/Dialysis/Sterilizing | 36,000 | 3.29 |
| 26 Shenipsit Lake Road (WAT) | Tolland | Elder Care | 65,721 | 6.39 |
| Properties near MMH | | | | |
| 18 Haynes Street | Manchester | Office Building/Commercial | 6,061 | 0.4 |
| 26 Haynes Street | Manchester | Office Building/Commercial | 4,256 | 0.43 |
| 36 Haynes Street | Manchester | Office Building/Commercial | 7,068 | 0.46 |
| 44 Haynes Street | Manchester | Office Building/Commercial | 1,523 | 0.17 |
| 310-312 Main Street | Manchester | Office Building/Commercial | 3,954 | 0.34 |
| 320 Main Street | Manchester | Office Building/Commercial | 10,640 | 0.29 |
| 353 Main Street | Manchester | Office Building/Commercial | 5,348 | 0.47 |
| 150 North Main Street | Manchester | Medical Office Building | 20,656 | 1.28 |
| 945 Main St (2 condos) | Manchester | Office Building/Condos | 2,330 | Condo |
| 319 Broad Street | Manchester | Thrift/retail store | 6,236 | 0.46 |
| W Middle Tpke; Russell; S Alton | Manchester | 12 SFR residential properties | 15,233 | 2.61 |
| Hemlock; S Hawthorne; S Alton | Manchester | 5 Vacant Residential parcels | | 11.57 |
| 56 Haynes Street | Manchester | Vacant commercial parcel | | 0.31 |
| Properties near RGH | | | | |
| Ward, Village and W Main Streets | Vernon | Vacant parcels | | 1.37 |
| JV - Partially Owned | | | | |
| 100 Haynes Street | Manchester | Cancer Center MOB | 30,443 | 2.59 |
| 29 Haynes Street | Manchester | Medical office building | 11,241 | 0.96 |
| 2800 Tamarack Avenue | South Windsor | Medical office building | 40,000 | 4.12 |
| 2400 + 2600 Tamarack Avenue | South Windsor | Medical office building | 52,615 | Ground leased |

### *Scope of the Appraisal*

Relevant information about the subject property was collected from the Client, discussion with the listing broker, proprietary data bases, appraisal files, and public records. The subject was legally identified through postal addresses, Assessors' records, legal description, and other documents/sources.

Specific steps in the scope of work included:

- Review and compilation of data about the subject property, the terms of the investment, the local market area, national and regional healthcare trends;
- Analysis of the factors considered to impact value including economic life of the improvements, barriers to entry, real estate development trends, operating expenses, competitive landscape, and construction costs of new hospitals and medical office buildings.
- Analysis of the subject in the Cost Approach by valuing the land as if vacant and the depreciated replacement cost new for the building improvements and the site improvements.
- Analysis of the Sales Comparison Approach to provide a framework and support for the Cost Approach.
- Reconciliation to a value conclusion.

Our valuations of the major properties are based on the steps described above. The smaller less material properties are valued with the help of recent historic appraisals, recent acquisitions, and Assessors' valuations supported by a review of small commercial property sales within the market. In addition, the high level analysis of the joint ventures concentrated in real estate involve recently constructed buildings which allowed us to look at the actual costs to construct to help opine on the net partial interest.

The business enterprise and personal property were valued separately by Navigant and are not included in this real estate appraisal appendix.

***Effective Dates of Appraisal***

The valuation date is March 31, 2016. The appraisal is based upon market conditions observed at that time.

***Property History***

Manchester Memorial Hospital and Rockville General Hospital are both currently operated as acute care hospitals. Woodlake at Tolland is operated as a skilled nursing facility. The hospitals and nursing facility have not changed ownership within the past three years. Of the additional other 38 properties owned by ECHN, only 353 Main Street, Manchester, CT had been purchased within the past three years. This 5,348 square foot commercial building was purchase May 9, 2014 for $695,000 or nearly $130 per square foot. This was a market transactions between unrelated parties. In discussion with ECHN real estate specialist, it is evident that the hospital has been acquiring properties around the campus for some time and are prudent in their acquisition decisions.

The Proposed Transaction involves the sale of specific asset from ECHN to PMP. See prior sections of this report for more specific details.

### *Property Rights Appraised and Value Definitions*

The property rights appraised are the fee simple estate ownership of the land, site improvements, and buildings (without personal property and the business). The fee simple estate is defined as, *"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."* [20]

### *Exposure Period*

The concept of FMV assumes the hypothetical sale of a property given reasonable exposure on the market. Further, the exposure time is presumed to precede the effective date of the appraisal. Exposure time is defined in USPAP Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Market Value Estimates" as:

> *The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.*

Exposure time is different for various types of real estate and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort. The best estimate of exposure time is a function of price, time, use, and current market conditions for the cost and availability of funds.

In estimating the length of time the property would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of this appraisal, we considered information gathered on comparable sales and historical and current market conditions.

After analyzing the aforementioned factors, we believe the reasonable exposure time to sell the properties would have been 18 to 24 months.

[20] The Dictionary of Real Estate Appraisal, Sixth Edition, Page 113.

***Manchester, Vernon and Tolland – Real Estate Description***

ECHN properties are located in the Hartford-West Hartford-East Hartford CBSA. Manchester Memorial Hospital is located in the city of Manchester, Connecticut in Hartford County. The hospital campus is located in central Manchester, equal distance between Interstate 84 and Interstate 384. The area is improved with a mix of residential along the side streets with neighborhood services along the arterials. This is an older well-established area of Manchester. New retail development has occurred in recent years just to the north of Manchester in South Windsor. South Windsor is the location of some of the real estate owned in Joint Ventures. The demographics for Manchester indicate a population within the city limits of 58,241 people. The area has an area median household income of $61,936, just short of the State median of $67,098. And the unemployment rate was 6.4% in 2014.

Rockville General Hospital is located in the Rockville area of the city of Vernon, Connecticut in Tolland County. Rockville area is an area with historic buildings. It is not surprising that the RGH has as a part of its campus a historic mansion. The location is approximately one mile northwest of Interstate 84. The demographics for Vernon indicate a population of 29,179 within the city limits. The area has a median household income of $59,081, below the state median of $67,098. And the unemployment rate was 6.4% in 2014. The median housing or condo value is slightly higher than the median in Manchester.

Woodlake at Tolland is located in the unincorporated area of Tolland County, Connecticut, to the east of Vernon. This area is a low-density suburban/ rural residential area of Tolland County. There are views of the surrounding habitat and access to Interstate 84 about two miles to the southwest.

Of the larger owned properties, the dialysis clinic and sterilization facility at 460 Hartford Turnpike in Vernon is in an attractive commercial area along the I-84, with surrounding commercial office and retail services.

The 37 small owned parcels that surround either the MMH campus or the RGH campus. There are two JV properties adjacent to the MMH. There are two JV investments in three properties in South Windsor. South Windsor is to the north of Manchester and has seen development in the past ten years. The population of South Windsor is just over 25,000 people. And the area median household income is $92,718, significantly above the state median household income and higher than Manchester and Vernon.

[21] A healthcare industry overview, economic overview, and a local market overview are provided in the main section of the overall report.

The following map shows the location of the real estate.

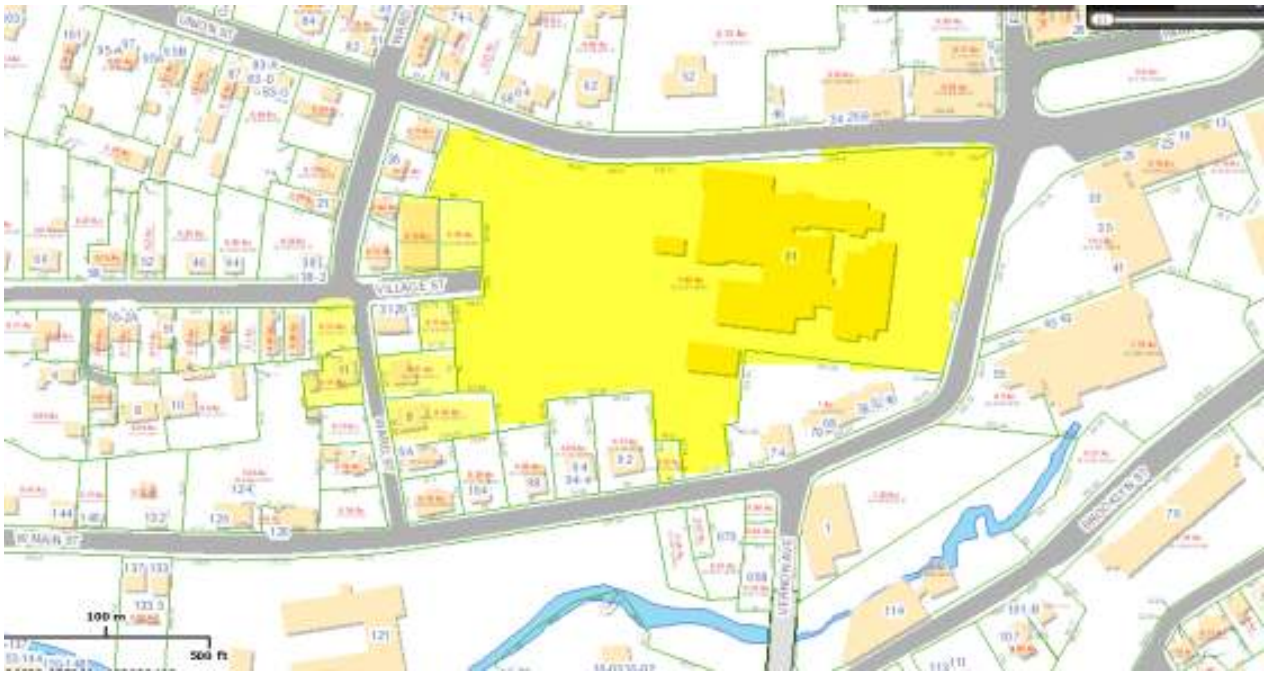
Both Vernon and Manchester are suburban communities to the larger community of Hartford, Connecticut. Both have higher demographics to Hartford.

A closer look at the MMH campus shows the wide variety of properties around the hospital. The following map shows the location of MMH and its surrounding owned properties. These show the hospital in the yellow, the MOB, general office and retail in blue, the single family residential properties in red, the vacant land is green and the joint venture medical office properties in purple.

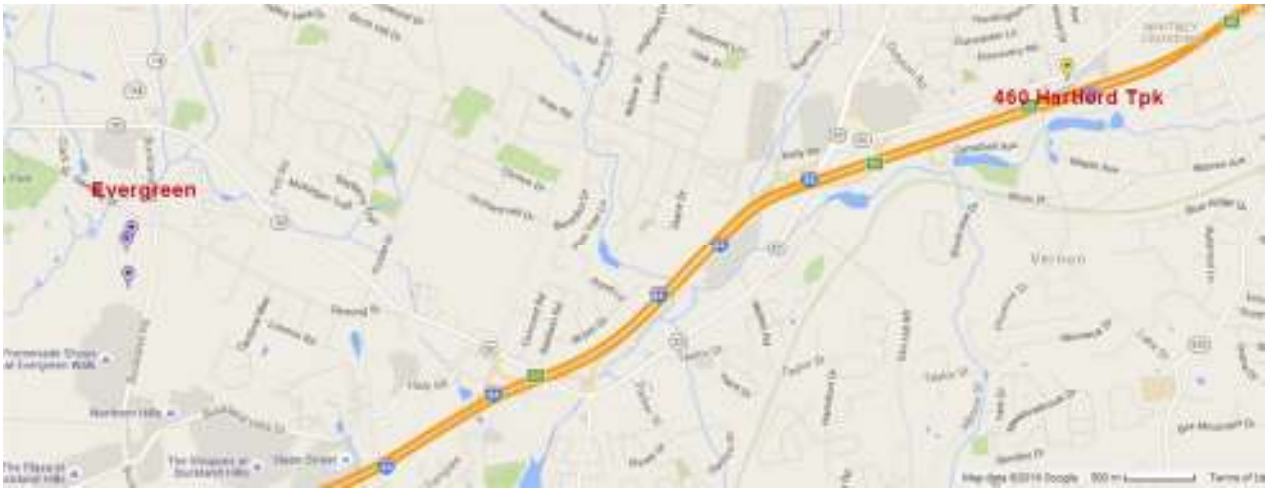
MMH campus area

In addition, a parcel map below is used to show the owned parcels (highlighted in yellow) and the two joint venture properties (highlighted in green).

The Rockville General Hospital is in the Rockville section of Vernon, Connecticut. The map below show the Rockville General Hospital campus. The main property is highlighted in yellow and the additional small land and commercial properties are highlighted in light yellow.




This map below shows the location of the joint venture properties in South Windsor on the western side and also shows one of the main owned properties, 460 Hartford Turnpike in Vernon, near I-84.



***Property Descriptions - MMH***

| | |
|---|---|
| Property Name | Manchester Memorial Hospital |
| Property Address | 71 Haynes Street, Manchester, CT |
| Property Type | Acute Care Hospital |
| Site area | 12.54 at 71 Haynes Street (hospital site) and 2.86 acres at 80 Haynes across the street (parking lot) |
| Years Built | 1920, 1942, 1966, 1971, 1976, 1982, 1984 with renovations through the years. Most recently the ICU in 2009 and the Pharmacy in 2014. |
| No. of Buildings | One, made up of adjoining buildings, constructed over the years. |
| No. of Stories | Four plus basement level below front street grade but at ground level due to hillside elevation. |
| Ceiling Height | 13 feet |
| Property Description | Manchester Memorial Hospital is licensed for 249 acute-care beds. Construction is masonry exterior walls. The roof is built-up cover on a flat deck. The hospital contains 527,224 square feet of improved space plus basement area and a four-story parking garage structure with skyway to hospital.<br><br>Included in the hospital campus are other related MOBs and parking lots. These are on separate parcels and are valued separately. |
| Construction Class & Quality | Class B –Average |
| Parking | 196,004 square foot parking garage |
| ADA Compliant: | Yes |
| HVAC/Utilities | Chilled water, gas-fired. Newly installed Generator outside and new boilers installed. Upgrades to the hospitals electrical distribution system will be necessary, particularly for emergency power. |
| Interior Finishes | The level of finish is typical for the age of the improvements. The flooring is vinyl, and tile. Walls are painted drywall and ceilings are acoustic drop ceilings. |
| Sprinklers/Detectors | Building is fully-sprinklered and has smoke detectors |

Site improvements include paved parking, curbs, and landscaped buffers around the site perimeter.

***Property Descriptions - RGH***

| | |
|---|---|
| Property Name | Rockville General Hospital |
| Property Address | 31 Union Street, Vernon, CT |
| Property Type | Acute Care Hospital |
| Site Area | 7.95 acres |
| Years Built | 1906, 1964, 1969, 1974, 1980, with renovations through the years. Most recently the Emergency Room 2004. |
| No. of Buildings | Two adjoining. Original mansion fronting Union Street (now primarily office use) and main hospital building to the rear and side of the historic mansion building. |
| No. of Stories | Four |
| Ceiling Height | 13 feet |
| Property Description | Rockville General Hospital is licensed for 102 acute-care beds. Construction is painted stucco over masonry exterior walls. The roof is built-up cover on a flat deck. The hospital contains 149,419 square feet of improved space in the main hospital and 27,929 square feet of improved space in the original mansion building. |
| Construction Class & Quality | Class B –Average (hospital) and Class D – Fair (mansion). Due to the age and condition of the original mansion, costs to maintain and repair a depreciated structure can outweigh the usefulness. |
| Parking | Open paved parking lots |
| ADA Compliant: | Yes |
| HVAC | Chilled water, gas-fired |
| Interior Finishes | The level of finish is typical for the age of the improvements; however some of the interior finishes are showing their age and have reached the end of their useful lives. The flooring is vinyl, and tile. Walls are painted drywall and ceilings are acoustic ceilings. |
| Sprinklers/Detectors | Building is fully-sprinklered and has smoke detectors |

Site improvements include paved parking, curbs, and landscaped buffers around the site perimeter.

***Property Descriptions – WAT***

| | |
|---|---|
| Property Name | Woodlake at Tolland – Skilled Nursing Facility |
| Property Address | 26 Shenipsit Lake Road, Tolland, CT |
| Property Type | Skilled Nursing Facility |
| Site area | 6.39 acres |
| Years Built | 1992 (100 beds) with an addition built in 2009 (30 beds). |
| No. of Buildings | One building |
| No. of Stories | Two |
| Ceiling Height | 10 - 20 feet |
| Property Description | Woodlake at Tolland is a skilled nursing facility, licensed for 130 beds. It includes common areas – dining room, kitchen, library, physical therapy. Construction is steel frame with masonry and painted stucco over masonry exterior walls. The roof is pitched metal and areas of flat rolled roofing. The building contains 65,721 square feet. |
| Construction Class & Quality | Class C –Average |
| Parking | Open paved parking lots |
| ADA Compliant: | Yes |
| HVAC | Chilled water, gas-fired |
| Interior Finishes | The level of finish is typical for the age of the improvements; however some of the interior finishes are showing their age and have reached the end of their useful lives. The lower level addition reflects contemporary finishes. The flooring is vinyl, and tile. Walls are painted drywall and ceilings are acoustic ceilings. |
| Sprinklers/Detectors | Building is fully-sprinklered, smoke detectors on site |

Site improvements include paved parking, curbs, and landscaped buffers around the site perimeter.

***Property Descriptions – 460 Hartford Turnpike***

| | |
|---|---|
| Property Name | 460 Hartford Turnpike |
| Property Address | 460 Hartford Turnpike, Vernon, CT |
| Property Type | MOB with dialysis center, sterilization operation on lower basement level |
| Site area | 3.29 acres |
| Years Built | 1999 |
| No. of Buildings | One building |
| No. of Stories | Two |
| Ceiling Height | 10 feet |
| Property Description | Construction is Class C brick masonry over wood frame with basement level of concrete block exterior walls. The roof is pitched metal. The building contains 18,000 square feet on each level for a total of 36,000 square feet. |
| Construction Class & Quality | Class C –Average |
| Parking | Open paved parking lots |
| ADA Compliant: | Yes |
| HVAC | Gas-fired |
| Interior Finishes | The level of finish is typical for the age of the improvements. The flooring is vinyl, and tile. Walls are painted drywall and ceilings are acoustic ceilings. |
| Sprinklers | Building is fully-sprinklered |

Site improvements include paved parking, curbs, and landscaped buffers around the site perimeter.

The other real estate owned by ECHN is summarized in the following table. Surrounding the MMH hospital, there are a mix of residential and small commercial uses. The hospital has been acquiring properties as they become available at reasonable prices. These acquisitions include 12 single-family residential properties, five vacant residential parcels, a vacant commercial site and eight general/medical office properties, one commercial condo property and a retail property housing a thrift shop.

The RGH campus has a main hospital property, but in addition there are several small residential and commercial lots, adjacent to the hospital property, previously acquired for future expansion or buffer zone.

As additional consideration of the assets owned, the valuation of the real estate assets of the joint ventures is also considered in the overall valuation. Therefore, a high level analysis of these five properties is presented to be used in the consideration of ECHN's interest in the JV investments.

The follow chart shows the non-essential real estate and the joint venture real estate. Some of these are grouped together, such as the 12 single family homes near MMH.

**REAL ESTATE CONSTRUCTION SUMMARY**

| Address | City | Property Use | Type | Size (SF) | Land (acres) |
|---|---|---|---|---|---|
| Properties near MMH | | | | | |
| 18 Haynes Street | Manchester | Office Building/Commercial | 1-story masonry | 6,061 | 0.4 |
| 26 Haynes Street | Manchester | Office Building/Commercial | 1-story masonry | 4,256 | 0.43 |
| 36 Haynes Street | Manchester | Office Building/Commercial | 1-story masonry | 7,068 | 0.46 |
| 44 Haynes Street | Manchester | Office Building/Commercial | 1-story masonry | 1,523 | 0.17 |
| 310-312 Main Street | Manchester | Office Building/Commercial | 2-story wood frame | 3,954 | 0.34 |
| 320 Main Street | Manchester | Office Building/Commercial | 2-story wood frame | 10,640 | 0.29 |
| 353 Main Street | Manchester | Office Building/Commercial | 1-story masonry | 5,348 | 0.47 |
| 150 North Main Street | Manchester | Medical Office Building | 2-story masonry | 20,656 | 1.28 |
| 945 Main St (2 condos) | Manchester | Office Building/Condos | 2-story masonry | 2,330 | Condo |
| 319 Broad Street | Manchester | Thrift/retail store | 1-story masonry | 6,236 | 0.46 |
| W Middle Tpke; Russell; S Alton | Manchester | 12 SFR residential properties | | 15,233 | 2.61 |
| Hemlock; S Hawthorne; S Alton | Manchester | 5 Vacant Residential parcels | | | 11.57 |
| 56 Haynes Street | Manchester | Vacant commecial parcel | | | 0.31 |
| Properties near RGH | | | | | |
| Ward, Village, W Main Streets | Vernon | Vacant parcels | | | 1.37 |
| JV - Partially Owned | | | | | |
| 100 Haynes Street | Manchester | Cancer Center MOB | 2-story masonry | 30,443 | 2.59 |
| 29 Haynes Street | Manchester | Medical office building | 1-story masonry | 11,241 | 0.96 |
| 2800 Tamarack Avenue | South Windsor | Medical office building | 2-story masonry | 40,000 | 4.12 |
| 2400 + 2600 Tamarack Avenue | South Windsor | Medical office building | 2-story masonry | 52,615 | Ground leased |

### *Highest and Best Use Analysis*

According to The Dictionary of Real Estate Appraisal, sixth edition, published by the Appraisal Institute, highest and best use is defined as the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

The highest and best use was presumed to be as currently improved as the market did not suggest that the current use was not the highest and best use. This is supported by the initial review of generally legally permissible uses according to the zoning, consideration of surrounding uses, and general market trends. It is also supported by the third party appraisal reports that were relied upon in this analysis. No additional detailed highest and best use study was conducted. We conclude that highest and best use of MMH and RGH, as improved, is for continued hospital use. The highest and best use of WAT is continued skilled nursing facility. The highest and best use for the midsize medical office and smaller medical office properties surrounding the hospitals, as improved, is for continued healthcare use.

### *Approaches to Value*

#### *Sales Comparison (Market) Approach*

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarities between it and the property being appraised.

#### *Income Approach*

The income approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, projecting revenue and expenses. Inherent to the income approach is the capitalization of the resulting net operating income. Through an income capitalization procedure, the value of the subject property is calculated. The income approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers. This approach, however, is utilized for income producing properties, such as lease office buildings and shopping centers, and is not typically relied upon for special use facilities, that are not under lease contract and that are not currently or expected to generate income in the near future.

#### *Cost Approach*

The cost approach estimates market value by computing the current cost of replacing the property and subtracting any depreciation resulting from physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land, as if vacant and available, is then added to the depreciated value of the improvements to produce a total value estimate. The cost approach is most reliable for estimating the value of new and/or special-purpose properties; however, as the

improvements deteriorate and market conditions change, the resultant loss in value becomes increasingly difficult to quantify accurately.

The most relevant approaches to value are selected and their concluded values are reconciled in to a final value or value range.

***Valuation Approaches Selected***

Major Properties –

For MMH and RGH, due to the special purpose nature of the hospital improvements, we have developed the cost approach including a depreciated replacement cost analysis for the buildings and site improvements. We have relied on the sales comparison approach to value the land as though vacant to be used in the cost approach. The analysis of hospital sales, in particular established facilities excluding recently constructed facilities, are used as a check of reasonableness to the cost approach.

Minor Properties –

There are 37 properties considered nonessential and placed in the minor properties category, each by itself considered immaterial. Due to the number of small properties, the timing and resources, these smaller properties were concluded to have fair market values approximate to the Assessors' reported market values, the recent purchase price or the recent third party appraised value. In some cases, properties were recently purchase, as in the case with 353 Main Street, Manchester. In other cases, there were recent third party appraisals, as in the case of 945 Main Street, Manchester. In addition to the Assessor's opinion of market value, recent purchase prices and recent third party appraisals were utilized to opine on fair market value of the minor properties.

Joint Venture Properties –

All four of the joint venture properties have been recently constructed. It is reasonable to consider the actual construction costs as an indicator of the fair market value. In this case, Management has provided cost information of each of the properties at 100 Haynes Street, Manchester; 29 Haynes Street, Manchester; 2800 Tamarack and 2400-2600 Tamarack, South Windsor. In addition, sales of recently constructed MOB buildings of comparable size were considered and presented to provide market support for the recent construction costs as an indicator of fair market value. Furthermore, sales of good quality, recently constructed cancer centers and imaging centers were considered and presented to support the valuation of 100 Haynes Street, Manchester.

***Presentation of Analysis***

The analysis of the major properties are presented first in exhibits at the end of this Appendix with reference to each exhibit in the following description of analysis.

All of the conclusions included in our summary table presented in Exhibit F-3

***Cost Approach***

The cost approach is being applied to the major properties, MMH, RGH, WAT and 460 Hartford Turnpike. We have used the market approach to value the land as though vacant, used within the cost approach along with the depreciated replacement costs or the structure, and the site improvements. The Fair Market Value conclusions via the cost approach, summarized in Exhibit G-5, were reconciled with our review and analysis of improved sales of comparable hospitals, skilled nursing facilities and mid-size MOB space presented in Exhibits G-6, G-7, and G-8.

*Land Valuation*

Land is valued as if vacant and available for development to its highest and best use. Similar land that has recently sold or is offered for sale is investigated, and a comparative analysis is made of factors influencing value. Factors considered included, but were not limited to, interest conveyed; cash equivalency; conditions of sale; date of sale; location and surrounding improvements; and physical characteristics including size, zoning, and density. Notes about the adjustments for comparison with the subjects are found on the exhibits referenced below.

The land value of the sites has been estimated, relying on the market approach, which has been supported with comparable sales data and current listings researched via CoStar, LoopNet, real estate brokerage firms, and other sources. The most appropriate unit of comparison is price per acre. The data selected for direct comparison is summarized in the Exhibit G-1 and G-2

*Building Improvements*

Building improvements analyzed in the major properties are hospital facilities, a skilled nursing facility and a medical office building. Based on information provided by Management and the County Assessors offices, the buildings were categorized by construction type as either Average Class B general hospitals; Average Class C Nursing Homes/Convalescent hospital or Class C MOB.

The cost new of the building improvements was estimated based on *Marshall and Swift Valuation Service* ("*MVS*"), specifically Section 15, of the February 2016 edition. The hard costs per square foot were estimated based on the construction type and quality as detailed in the exhibit footnotes. Soft costs of 12%, and local multipliers were applied, to arrive at an adjusted cost new. No entrepreneurial profit is considered implied in this market since, these hospitals are typically owner/builders for the purpose of housing their operation, not as a means for generating a profit incentive.

Economic life was estimated based on *MVS* and the estimated effective age reflects the chronological age as well as condition and any recent capital improvements. In addition to this, the recent Facility

Assessment Report by CharterCare Health Partners dated September 23, 2015 was helpful in providing information on capital improvement needs, which are considered against the replacement cost new.

In addition, due to the changing regulations and requirements of the healthcare marketplace, facilities built many years ago do not best meet the needs of the hospital operations. This reduction is usefulness is from a combination of functional and external obsolescence for a hospital facility. For example, dual room occupancy is becoming less desirable as the trend is toward single bed occupancy. This in part is to help control the spread of infectious diseases. A recent study by MMH as to the potential cost of changing to single bed occupancy indicated a cost of $51 million. By applying all $51 million as a curable functional obsolescence, if cured, it would have an offsetting impact on the amount of physical depreciation and may also offset the current external obsolescence discussed below. Therefore, there offsetting consequences of an improved physical plant is recognized, reducing the functional obsolescence to half the cost to cure or 30% of physically depreciated cost.

External obsolescence is applied in the cost approach to recognize the deficient in the utilization of the assets based upon outside external and economic forces that are impacting the value of these real estate assets. This can be measured by considering the use of the real estate at it optimal designed capacity and comparing that with the current demand for the property. In typical commercial properties this can be viewed by comparing the market rent required to support a reasonable return on the cost new versus the current market rent. In the case of hospitals they are not typically leased. An indication of the existence of this negative external force is a look at the licensed bed capacity used to justify the creation of the buildings and then comparing this with the staffed beds in actual use. We can quantify this diminution by comparing the anticipated occupancy levels of the licensed beds with the recent actual occupancy levels of the licensed beds. Typically in a health market, the occupancy level of licensed beds would be 60% on average. As shown in the Historic Operational Analysis –ECHN, Exhibit C-3, the occupancy of licensed beds has continued to decline over the past several years to its 2015 level of 34.5%. The difference in actual occupancy versus standard occupancy indicates an external obsolescence of 43%. There is an oversupply of licensed hospital beds resulting in much fewer staffed beds to meet the demand of the marketplace.

This external obsolescence of 43% is applied to both MMH and RGH since the 43% diminution comes from aggregate ECHN numbers.

RGH is treated similarly with regard to age/life, capital needs and functional and external obsolescence. WAT also has some capital improvement needs used in the cost approach analysis.

Details of the building improvements analysis are presented in Exhibit G-3.

*Site Improvements*

Site improvements include parking areas and drive/loading areas, landscaping, and miscellaneous items listed in the exhibit footnotes.
The cost new of the site improvements was estimated based on Section 66 of *MVS*. Areas and measurements were scaled from the ALTA survey or aerial photographs as well as from information provided by Management. Soft costs of 12%, and the *MVS* current and local multipliers were applied to arrive at an adjusted cost new. No entrepreneurial profit is considered implied in this market since,

these hospitals are typically owner/builders for the purpose of housing their operation, not as a means for generating a profit incentive.

Depreciation was based on the age/life method; both economic life and effective age were estimated based on discussions with Management, observations during the site inspection, information on the ages of various segments of the facilities and other data provided or researched by Navigant.

Details of the site improvements analysis are presented in Exhibit G-4

*Cost Approach Conclusion*

The conclusion of the Cost Approach for the four major properties is concluded in Exhibit G-5

**MAJOR PROPERTIES - SUMMARY OF COST VALUATION CONCLUSIONS**

| Address | City | Size | Land Value (1) | Site Imps (2) | Bldg Imps (3) | Fair Market Value |
|---|---|---|---|---|---|---|
| 71-80 Haynes Street (MMH) | Manchester | 527,224 | $ 1,800,000 | $ 740,000 | $ 18,023,900 | $ 20,563,900 |
| | | | | | Rounded | $ 20,600,000 |
| 31 Union St (RGH) | Vernon | 177,348 | $ 1,200,000 | $ 320,000 | $ 2,275,800 | $ 3,795,800 |
| | | | | | Rounded | $ 3,800,000 |
| 460 Hartford Turnpike | Vernon | 36,000 | $ 500,000 | $ 180,000 | $ 3,060,000 | $ 3,740,000 |
| | | | | | Rounded | $ 3,700,000 |
| 26 Shenipsit Lake Road (WAT) | Tolland | 65,721 | $ 800,000 | $ 270,000 | $ 7,029,000 | $ 8,099,000 |
| | | | | | Rounded | $ 8,100,000 |

### *Improved Sales*

Navigant analyzed improved property sales to test the reasonableness of the conclusion via the cost approach. We identified multiple comparable transactions that closed in 2014 to 2016 supplemented with earlier sales, listings and pending. Comparative factors included location, age and condition of the property, land-to-building ratios, and type of construction. The data set represents properties that are considered generally similar to the subjects. The Navigant analysis also included review of the current book values. Assessor's opinions of market value, when available, were also taken into consideration.

Details of the Sales bracketing the concluded Fair Value are presented in Exhibits G-6, G-7 and G-8.

### *Overall Fair Value – Major Properties*

Based on our analysis as summarized in the Exhibit G-5, we conclude that the overall fair value conclusions for the major real properties are reasonable and supported by the comparable data.

***Valuation of minor properties***

There are 37 nonessential real properties surrounding the campuses of MMH and RGH. Due to the timing and resources, Assessor's opinion of market value, recent purchase prices and recent third party appraisals were utilized to opine on initial value of the minor properties. In some cases, properties were recently purchase, as in the case with 353 Main Street, Manchester. In another case, there was a recent third party appraisal, as in the case of 945 Main Street, Manchester.

But given the nonessential nature of these other smaller properties and the quantity of properties, it is likely that a potential buyer focused on the real estate to house the hospital operation would divest themselves to this nonessential real estate. This is similar to personal property valuations of nonessential personal property for a business operation.

Therefore, the aggregate of initial property prices were used in a short three year cash flow model to reflect the present value of the selloff of these assets. The cash flow included a deduction for sales and marketing costs. The profit incentive was included within the discount rate, based on PwC Investor Survey.

This analysis is presented in Exhibit G-9.

***Valuation of Joint Venture properties***

There are four joint ventures, Evergreen Medical I and II, Haynes Street Medical I and II, which own a total of five fairly recently constructed buildings. Due to the limited information on financial statements for each property, and the recent construction, the actual construction costs provided by the ECHN management were utilized to opine on fair market value of the JV properties. The actual historic costs between 2007 and 2011 were escalated to current date by using Marshall Valuation Services (MVS) District Comparative Cost Multipliers in Section 98. After begin the actual costs to current date, the appropriate physical depreciation was applied to opine on an "as is" value by the cost approach. This approach is support by review of comparable sales of recently building medical office building of comparable size in the northeast. The sales support the concluded values from the analyzed actual costs.

This analysis is presented in Exhibit G-11 with comparable sales in Exhibits G-12 and G-13.

***Valuation Conclusion***

Based on the investigation and analyses contained herein, it is our opinion that as of March 31, 2016, the FMV of the fee simple interest in the wholly owned real property appraised, as if available on the open market, is $42,170,000.

The joint venture real estate, net of liabilities is $1,760,000.

This Appendix is not intended to be relied upon apart from the larger valuation report encompassing all assets of ECHN.

## PROPERTY BY PROPERTY SUMMARY OF VALUE CONCLUSIONS

Wholly Owned

| Address | City | Property Type | Size | | Fair Market Value |
|---|---|---|---|---|---|
| 71-80 Haynes Street (MMH) | Manchester | Hospital and park | 527,224 | | $ 20,600,000 |
| 31 Union St (RGH) | Vernon | Hospital | 177,348 | | 3,800,000 |
| 460 Hartford Turnpike | Vernon | Medical/Dialysis/ | 36,000 | | 3,700,000 |
| 26 Shenipsit Lake Road (WAT) | Tolland | Elder Care | 65,721 | | 8,100,000 |
| Additional MMH properties | | | | Base Values | |
| 18 Haynes Street | Manchester | Office Building/C | 6,061 | $ 770,000 | |
| 26 Haynes Street | Manchester | Office Building/C | 4,256 | $ 500,000 | |
| 36 Haynes Street | Manchester | Office Building/C | 7,068 | $ 780,000 | |
| 44 Haynes Street | Manchester | Office Building/C | 1,523 | $ 160,000 | |
| 310-312 Main Street | Manchester | Office Building/C | 3,954 | $ 320,000 | |
| 320 Main Street | Manchester | Office Building/C | 10,640 | $ 770,000 | |
| 353 Main Street | Manchester | Office Building/C | 5,348 | $ 700,000 | |
| 150 North Main Street | Manchester | Medical Office Bu | 20,656 | $ 1,890,000 | |
| 945 Main St (2 condos) | Manchester | Office Building/C | 2,330 | $ 180,000 | |
| 319 Broad Street | Manchester | Thrift/retail store | 6,236 | $ 620,000 | |
| W Middle Tpke; Russell; | Manchester | 12 SFR residenti | 15,233 | $ 1,320,000 | |
| Hemlock; Hawthorne; Alton | Manchester | 5 Vacant Reside | 11.57 acres total | $ 440,000 | |
| 56 Haynes Street | Manchester | Vacant commeci | 0.31 acres | $ 40,000 | |
| Additional RGH properties | | | | | |
| Ward, Village and W Main | Vernon | Vacant parcels | 1.37 acres | 410,000 | |
| Aggregate of retail values of nonessential real estate | | | | 8,900,000 | |
| Net Proceeds - nonessential real estate | | | | | $ 5,970,000 |
| **Total Fair Market Value of Wholly Owned Real Estate Assets** | | | | | **$ 42,170,000** |

JV - Partially Owned

| Address | City | Property Type | Size | Ownership | Fair Market Value - RE | FMV Equity |
|---|---|---|---|---|---|---|
| 100 Haynes Street | Manchester | Cancer Center M | 30,443 | 15.0% | $ 1,321,965 | $ 378,616 |
| 29 Haynes Street | Manchester | Medical office bu | 11,241 | 22.9% | 512,479 | 135,475 |
| 2800 Tamarack Avenue | South Winds | Medical office bu | 40,000 | 20.0% | 1,186,740 | 276,123 |
| 2400 + 2600 Tamarack Avenue | South Winds | Medical office bu | 52,615 | 20.0% | 2,593,280 | 970,849 |
| | | | | | $ 5,614,464 | $ 1,761,063 |
| **Total Fair Market Value of JV Owned Real Estate Assets** | | | | | Rounded | **$ 1,760,000** |

## Certification: Real Property

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported real property analyses, opinions, and conclusions are limited only by the accompanying assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the property or parties involved.
- My engagement in this assignment and compensation are not contingent upon developing or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have not performed services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have made a personal inspection of selected designated owned assets.
- No one provided significant real property appraisal assistance to the person signing this certification with preparing the report.
- As of the date of this report, Kathryn Sturgis-Bright, MAI, has completed the requirements of the continuing education program for designated members of the Appraisal Institute.

Kathryn Sturgis-Bright, MAI, MBA
Associate Director
Certified General Appraiser - Connecticut Temporary License #RTG.0002824

**State of Connecticut, Office of Attorney General**

**Fair Market Value of**

**Eastern Connecticut Health Network, Inc.**

*Valuation Analysis as of March 31, 2016*

**FINAL**


| Description | Exhibit # |
|---|---|
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**Valuation Summary**

| Value as a Going Concern (1) | Notes | Wgt % | FMV |
|---|---|---|---|
| Discounted Cash Flow Method | (2) | *100.0%* | $63,750,000 |
| Guideline Company Method | (3) | *0.0%* | 70,344,000 |
| Guideline Transaction Method | (4) | *0.0%* | 73,091,000 |
| Unadjusted ECHN Business Enterprise Value | | | $63,750,000 |
| Net Working Capital Adjustment | (5) | | (2,870,000) |
| **FMV of ECHN Business Enterprise Value, Going Concern** | | | **$60,880,000** |

| Consideration Paid for ECHN Assets | Notes | As of 2/29/2016 |
|---|---|---|
| Purchase Price for 100% of ECHN | (5) | $105,000,000 |
| Net Working Capital Adjustment | (5) | (2,870,000) |
| **Adjusted Purchase Price (including net working capital adjustment)** | | **$102,130,000** |

| | |
|---|---|
| **Amount By Which Purchase Price Exceeds FMV of Business Enterprise, Going Concern** | **$41,250,000** |

*Notes:*

(1) Navigant has assumed that ECHN would continue to be operated as a going concern health system. Our going concern premise of value relied primarily upon the DCF method, with corroborating support from the market approach. Navigant also performed a supplemental asset-based approach as additional support. See Exhibit F-1, Summary of Supplemental Asset-Based Approach.

(2) See Exhibit B-1, Discounted Cash Flow Method.

(3) See Exhibit D-1, Guideline Company - Summary.

(4) See Exhibit E-1, Similar Transaction Method Summary.

(5) Purchase price is based on a review of Asset Purchase Agreement. Based on the agreement, the aggregate purchase price is to be adjusted for the amount by which the net book value of net working capital of ECHN is greater or less than $24.0M. Based on Management's projected net working capital of $21.13M, the adjustment from purchase price is ($2.87M).

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit B-1**

NAVIGANT

**FINAL**

**Discounted Cash Flow Method**

| | | FYE | | Projections | | | | Terminal |
|---|---|---|---|---|---|---|---|---|
| | | 2015 | | 2016 | 2017 | 2018 | 2019 | Year |
| Net Revenues | | $313,562,465 | (1) | $303,632,999 | $312,541,565 | $319,075,166 | $325,602,675 | $332,114,729 |
| *Growth Rate* | | | | *(3.2%)* | *2.9%* | *2.1%* | *2.0%* | *2.0%* |
| EBITDA | | 10,845,633 | (1) | 11,281,034 | 11,971,441 | 12,266,755 | 11,905,998 | 12,144,118 |
| *EBITDA margin* | | *3.5%* | | *3.7%* | *3.8%* | *3.8%* | *3.7%* | *3.7%* |
| Depreciation | | | (2) | 19,427,783 | 15,129,963 | 12,031,324 | 9,809,442 | 4,981,721 |
| Operating Income (EBIT) | | | | (8,146,749) | (3,158,522) | 235,431 | 2,096,556 | 7,162,397 |
| Less: Income Taxes | 40.9% | | (3) | - | 0 | 96,174 | 856,443 | 2,925,839 |
| After-Tax Debt-Free Net Income | | | | (8,146,749) | (3,158,522) | 139,258 | 1,240,113 | 4,236,558 |
| Free Cash Flow Adjustments | | | | | | | | |
| Add: Depreciation | | | (2) | 19,427,783 | 15,129,963 | 12,031,324 | 9,809,442 | 4,981,721 |
| Less: Working Capital Investment | 9.0% | | (4) | (893,652) | 801,771 | 588,024 | 587,476 | 586,085 |
| Less: Capital Expenditures | 1.5% | | (2) | 4,554,495 | 4,688,123 | 4,786,127 | 4,884,040 | 4,981,721 |
| After-Tax Debt-Free Cash Flow | | | | 7,620,191 | 6,481,546 | 6,796,430 | 5,578,039 | 3,650,473 |
| Partial Period | | | | 0.50 | 1.00 | 1.00 | 1.00 | |
| Mid-Year Period | | | | 0.25 | 1.00 | 2.00 | 3.00 | |
| Present Value Factor | 11.0% | | (5) | 0.97 | 0.90 | 0.81 | 0.73 | |
| Present Value of Available Cash Flows | | | | 3,711,975 | 5,839,231 | 5,516,135 | 4,078,614 | |

| | | |
|---|---|---|
| Sum of Present Value of Cash Flows | 19,145,955 | |
| Present Value of Terminal Year | 29,657,715 | |
| Unadjusted Business Enterprise Value ("BEV") | 48,803,670 | |
| Plus: Joint Venture Interests | 13,187,000 | (6) |
| Plus: Real Estate Joint Venture Interests | 1,760,000 | (7) |
| **Business Enterprise Value (Rounded)** | **$63,750,000** | |

| Residual Calculation | |
|---|---|
| Terminal Year Cash Flow | 3,650,473 |
| Capitalization Rate | 9.0% |
| Cash Flow After Terminal Year | 40,560,811 |
| Present Value Factor | 0.73 |
| Present Value of Terminal Year | 29,657,715 |

| Implied Multiples: | |
|---|---|
| BEV / Base Year Revenue Multiple | 0.2x |
| BEV / Base Year EBITDA Multiple | 5.9x |
| BEV / Year 1 Revenue Multiple | 0.2x |
| BEV / Year 1 EBITDA Multiple | 5.7x |

| Sensitivity Analysis: WACC | | | |
|---|---|---|---|
| | **10.5%** | **11.0%** | **11.5%** |
| **1.5%** | 65,330,000 | 63,160,000 | 61,200,000 |
| **2.0%** | 66,060,000 | 63,750,000 | 61,680,000 |
| **2.5%** | 66,880,000 | 64,410,000 | 62,210,000 |

*Notes:*

(1) See Exhibit B-2, Projected Income Statement.
(2) See Exhibit B-5, Tax Depreciation Analysis. Capital expenditures estimated to be 1.5% a year based on comparison to guideline companies and ECHN's avaliable cash flows.
(3) Income taxes are based on a blend of the corporate state income tax for Connecticut and the top federal marginal tax rate on US corporations.
(4) See Exhibit D-3, Guideline Company - Ratios. Working capital based on benchmark based on median debt-free working capital level for guideline companies.
(5) See Exhibit B-4, Weighted Average Cost of Capital. Discount factor reflects a mid period convention.
(6) See Exhibit F-4, Joint Venture Analysis.
(7) See Exhibit F-3, Real Property - Summary of Fair Market Values.

**Projected Income Statement** (1)

| | FYE | Projections | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Net Revenues | $313,562,465 | $303,632,999 | $312,541,565 | $319,075,166 | $325,602,675 |
| Expenses | | | | | |
| Salaries & wages | 156,774,464 | 148,753,683 | 155,663,010 | 159,627,792 | 163,579,059 |
| Fringe benefits | 44,024,084 | 41,467,584 | 41,437,584 | 42,207,584 | 42,897,584 |
| Physician Fees | 14,605,651 | 14,605,651 | 15,043,821 | 15,495,135 | 15,959,989 |
| Supplies & Other Expenses | 85,077,223 | 86,077,223 | 87,925,709 | 88,977,900 | 90,760,045 |
| Total Operating Expenses | 300,481,422 | 290,904,141 | 300,070,124 | 306,308,411 | 313,196,677 |
| Less Non-Operating Expense/(Income) | 2,235,410 | 1,447,824 | 500,000 | 500,000 | 500,000 |
| **EBITDA** | **$10,845,633** | **$11,281,034** | **$11,971,441** | **$12,266,755** | **$11,905,998** |
| *EBITDA margin%* | *3.5%* | *3.7%* | *3.8%* | *3.8%* | *3.7%* |

| | FYE | Projections | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Net Revenues | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Expenses | | | | | |
| Salaries & wages | 50.0% | 49.0% | 49.8% | 50.0% | 50.2% |
| Fringe benefits | 14.0% | 13.7% | 13.3% | 13.2% | 13.2% |
| Physician Fees | 4.7% | 4.8% | 4.8% | 4.9% | 4.9% |
| Supplies & Other Expenses | 27.1% | 28.3% | 28.1% | 27.9% | 27.9% |
| Total Operating Expenses | 95.8% | 95.8% | 96.0% | 96.0% | 96.2% |
| Less Non-Operating Expense/(Income) | 0.7% | 0.5% | 0.2% | 0.2% | 0.2% |
| **EBITDA** | **3.5%** | **3.7%** | **3.8%** | **3.8%** | **3.7%** |

*Notes:*
(1) See Exhibit B-3, Revenue Projections and Operating Expense Projections - ECHN.

**Revenue Projections and Operating Expense Projections - ECHN** (1)

| | FYE | | | Projected | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| **Revenue Projections** | | | | | | | |
| **Total Net Patient Revenue** | **$298,979,957** | **$299,755,216** | **$297,145,105** | **$290,069,367** | **$299,351,565** | **$305,885,166** | **$312,412,675** |
| Other Operating Revenue (2) | $25,002,846 | $25,687,937 | $15,584,752 | $12,915,000 | $12,915,000 | $12,915,000 | $12,915,000 |
| *Growth* | | *2.7%* | *-39.3%* | *-17.1%* | *0.0%* | *0.0%* | *0.0%* |
| Net Assets Released From Restrictions | $1,871,227 | $833,650 | $832,608 | $648,632 | $275,000 | $275,000 | $275,000 |
| | | *-55.4%* | *-0.1%* | *-22.1%* | *-57.6%* | *0.0%* | *0.0%* |
| **Total Net Revenue** | **$325,854,030** | **$326,276,803** | **$313,562,465** | **$303,632,999** | **$312,541,565** | **$319,075,166** | **$325,602,675** |

| | FYE | | | Projected | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| **Operating Expense Projections** | | | | | | | |
| Total Salaries & Wages | $163,729,402 | $162,727,445 | $156,774,464 | $148,753,683 | $155,663,010 | $159,627,792 | $163,579,059 |
| Fringe Benefits | $47,592,094 | $43,859,398 | $44,024,084 | $41,467,584 | $41,437,584 | $42,207,584 | $42,897,584 |
| *As a % of Salaries & Wages* | *29.1%* | *27.0%* | *28.1%* | *27.9%* | *26.6%* | *26.4%* | *26.2%* |
| Total Salaries, Wages & Benefits | $211,321,496 | $206,586,843 | $200,798,548 | $190,221,267 | $197,100,594 | $201,835,376 | $206,476,643 |
| Total Supplies & Other Expenses | $100,342,397 | $104,034,396 | $99,682,874 | $100,682,874 | $102,969,530 | $104,473,035 | $106,720,035 |
| Physician Fees | $ - | $14,478,331 | $14,605,651 | $14,605,651 | $15,043,821 | $15,495,135 | $15,959,989 |
| *Growth* | *n.a* | *n.a* | *0.9%* | *0.0%* | *3.0%* | *3.0%* | *3.0%* |
| Supplies & Other Expenses | $100,342,397 | $89,556,065 | $85,077,223 | $86,077,223 | $87,925,709 | $88,977,900 | $90,760,045 |
| *Growth* | *n.a* | *-10.7%* | *-5.0%* | *1.2%* | *2.1%* | *1.2%* | *2.0%* |
| Non-Operating (Income)/Expense | $2,138,589 | $2,125,751 | $2,235,410 | $1,447,824 | $500,000 | $500,000 | $500,000 |
| *Growth* | *n.a* | *-0.6%* | *5.2%* | *-35.2%* | *-65.5%* | *0.0%* | *0.0%* |
| **Total Operating Expenses** | **$313,802,482** | **$312,746,990** | **$302,716,832** | **$292,351,965** | **$300,570,124** | **$306,808,411** | **$313,696,677** |

*Notes:*

(1) Revenue and operating expense projections were provided by management.

(2) Other operating revenue excludes joint venture income. We have valued the joint ventures in Exhibit F-4, Joint Venture Analysis.

**Weighted Average Cost of Capital**

| Ticker | Company Name | Stock Price | Shares Outstanding | Market Value of Equity | Interest Bearing Debt | Preferred Stock | Minority Interest | Market Value of Capital | Debt to Capital | Equity to Capital | Effective Tax Rate | Levered Beta (1) | Unlevered Beta |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CYH | Community Health Systems, Inc. | $18.51 | 112.76 | $2,087 | $17,019 | $ - | $680 | $19,786 | 86.0% | 14.0% | 28.1% | 1.30 | 0.24 |
| UHS | Universal Health Services Inc. | 124.72 | 97.66 | 12,180 | 3,289 | - | 324 | 15,793 | 20.8% | 79.2% | 34.3% | 1.48 | 1.26 |
| LPNT | LifePoint Health, Inc. | 69.25 | 43.13 | 2,987 | 2,741 | - | 155 | 5,883 | 46.6% | 53.4% | 36.0% | 0.86 | 0.55 |
| HCA | HCA Holdings, Inc. | 78.05 | 395.77 | 30,890 | 30,674 | - | 1,557 | 63,121 | 48.6% | 51.4% | 29.9% | 1.10 | 0.66 |
| THC | Tenet Healthcare Corp. | 28.93 | 98.53 | 2,850 | 14,522 | - | 2,682 | 20,054 | 72.4% | 27.6% | 75.3% | 1.44 | 0.87 |
| | | | | | | | | Average | 54.9% | 45.1% | 40.8% | 1.23 | 0.72 |
| | | | | | | | | Median | 48.6% | 51.4% | 40.9% | 1.30 | 0.66 |
| | | | | | | | | **Selected** | **50.0%** | **50.0%** | | | **0.66** |

| **Relevered Beta** | |
|---|---|
| Unlevered Beta | 0.66 |
| Target Equity to Capital Weight | 50.0% |
| Target Debt to Capital Weight | 50.0% |
| Target Preferred Stock to Capital Weight | 0.0% |
| Target Minority Interest to Capital Weight | 0.0% |
| Subject Tax Rate | 40.9% |
| **Calculated Beta** | **1.05** |

| **Cost of Equity** | ECHN |
|---|---|
| Risk-free Rate (Rf) (2) | 2.20% |
| Equity Risk Premium (Rm - Rf) (3) | 6.2% |
| Levered Beta | 1.05 |
| Small Stock Premium (SSP) (4) | 5.8% |
| Specific Risk Premium (SRP) (5) | 5.0% |
| **Calculated Cost of Equity (6)** | **19.5%** |

| **Cost of Debt** | |
|---|---|
| Pretax Cost of Debt (7) | 4.9% |
| Combined Effective Tax Rate (8) | 40.9% |
| Calculated Cost of Debt | **2.9%** |

| **Capital Structure and WACC** | | |
|---|---|---|
| Equity to Capital Weight | 50.00% x 19.48% = | 9.7% |
| Debt to Capital Weight | 50.00% x 2.90% = | 1.4% |
| **Calculated WACC (9)** | | **11.0%** |

*Notes:*

(1) Represents a five-year monthly historical beta, utilizing the S&P 500 as a proxy for the market.
(2) Federal Reserve Statistical Release, H.15 as of March 31, 2016 (20-year treasury bond constant maturity).
(3) SBBI Yearbook 2015, Ibbotson Associates, long-horizon expected equity risk premium (supply side).
(4) SBBI Yearbook 2015, Ibotson Associates, small stock risk premium based on the 10th decile portfolio.
(5) Based on company specific risk factors including relatively low margins, ability to meet capital expenditure needs, state government payment uncertainty, and concentration of services in two geographic markets.
(6) Cost of Equity using the Capital Asset Pricing Model = $R_f$ + B x ($R_m$ - $R_f$) + SSP + SRP
(7) Federal Reserve Statistical Release, H.15 as of March 31, 2016 (Moody's Seasoned Baa Corporate Bonds).
(8) Estimated tax rate based on top federal marginal tax rate for US corporations and state corporate income tax for the state of Connecticut.
(9) Weighted Average Cost of Capital = Equity Weight x Cost of Equity + Debt Weight x Cost of Debt

## Tax Depreciation Analysis

| Depreciation of Existing Assets | | Projections 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Existing Fixed Asset Balance at Beginning of Year | (1) | $65,770,000 | $46,978,571 | $33,556,122 | $23,968,659 |
| Estimated Remaining Tax Life | | 7.0 | 6.0 | 5.0 | 4.0 |
| Declining Balance Method Depreciation | | 18,791,429 | 13,422,449 | 9,587,464 | 6,848,188 |
| Straight Line Method Depreciation | | 9,395,714 | 7,829,762 | 6,711,224 | 5,992,165 |
| Total Existing Fixed Assets Depreciation | | 18,791,429 | 13,422,449 | 9,587,464 | 6,848,188 |
| Fixed Asset Balance at End of the Year | | $46,978,571 | $33,556,122 | $23,968,659 | $17,120,471 |
| Average Tax Life of Existing Fixed Assets | | 7.0 | | | |
| Declining Balance | | 200% | | | |

| | | | Projections 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Total Projected Capital Expenditures | | | $4,554,495 | $4,688,123 | $4,786,127 | $4,884,040 |
| Capital Expenditure % | | | | | | |
| 5 Year Property | | 40% | | | | |
| 7 Year Property | | 40% | | | | |
| 39 Year Property | | 20% | | | | |
| **Five Year Property** | | | | | | |
| Depreciation Percentages | | | 20.0% | 32.0% | 19.2% | 11.5% |
| | | Additions | | | | |
| Acquisition Year | 2016 | $1,821,798 | $364,360 | $582,975 | $349,785 | $209,871 |
| | 2017 | 1,875,249 | | 375,050 | 600,080 | 360,048 |
| | 2018 | 1,914,451 | | | 382,890 | 612,624 |
| | 2019 | 1,953,616 | | | | 390,723 |
| Total Five Year Property Depreciation | | | $364,360 | $958,025 | $1,332,755 | $1,573,267 |

*Notes:*
(1) Based on information provided by and discussions with Management.

**Tax Depreciation Analysis**

| | | | Projections | | | |
|---|---|---|---|---|---|---|
| | | | 2016 | 2017 | 2018 | 2019 |
| **Seven Year Property** | | | | | | |
| Depreciation Percentages | | | 14.29% | 24.49% | 17.49% | 12.49% |
| | | Additions | | | | |
| Acquisition Year | 2016 | $1,821,798 | $260,335 | $446,158 | $318,632 | $227,543 |
| | 2017 | 1,875,249 | | 267,973 | 459,249 | 327,981 |
| | 2018 | 1,914,451 | | | 273,575 | 468,849 |
| | 2019 | 1,953,616 | | | | 279,172 |
| Total Seven Year Property Depreciation | | | $260,335 | $714,131 | $1,051,456 | $1,303,544 |

| | | | Projections | | | |
|---|---|---|---|---|---|---|
| | | | 2016 | 2017 | 2018 | 2019 |
| **Thirty-Nine Year Property** | | | | | | |
| Depreciation Percentages | | | 1.28% | 2.56% | 2.56% | 2.56% |
| | | Additions | | | | |
| Acquisition Year | 2016 | $910,899 | $11,660 | $23,355 | $23,355 | $23,355 |
| | 2017 | 937,625 | | 12,002 | 24,041 | 24,041 |
| | 2018 | 957,225 | | | 12,252 | 24,543 |
| | 2019 | 976,808 | | | | 12,503 |
| Total Thirty-Nine Year Property Depreciation | | | $11,660 | $35,357 | $59,649 | $84,443 |
| Total Projected Capital Expenditures Depreciation | | | $636,354 | $1,707,514 | $2,443,860 | $2,961,254 |
| Total Exisiting Depreciation | | | $18,791,429 | $13,422,449 | $9,587,464 | $6,848,188 |
| Total Projected Capital Expenditures Depreciation | | | 636,354 | 1,707,514 | 2,443,860 | 2,961,254 |
| **Total Depreciation** | | | **$19,427,783** | **$15,129,963** | **$12,031,324** | **$9,809,442** |

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit C-1**

NAVIGANT

**FINAL**

**Historical Balance Sheet - ECHN**

| | FYE September 30, | | | | | Common-Size | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **ASSETS** | | | | | | | | | | |
| Current Assets | | | | | | | | | | |
| Cash and cash equivalents | $20,991,180 | $20,052,067 | $22,439,356 | $20,733,601 | $16,286,829 | 8.0% | 7.1% | 7.9% | 7.5% | 6.2% |
| Current portion of investments held under bond indentures | 1,504,988 | 5,435,445 | 1,850,531 | 1,163,916 | 1,097,599 | 0.6% | 1.9% | 0.7% | 0.4% | 0.4% |
| Accounts receivable, net | 39,643,428 | 46,711,255 | 46,524,143 | 44,610,272 | 41,607,499 | 15.1% | 16.5% | 16.5% | 16.2% | 16.0% |
| Inventory | 4,228,568 | 4,253,600 | 5,065,716 | 5,437,285 | 5,553,809 | 1.6% | 1.5% | 1.8% | 2.0% | 2.1% |
| Current portion of estimated settlements due from third-party payers | 432,832 | 4,402,920 | 3,463,096 | 3,602,585 | 3,573,134 | 0.2% | 1.6% | 1.2% | 1.3% | 1.4% |
| Prepaid expenses and other current assets | 5,471,488 | 5,020,607 | 5,046,865 | 5,686,236 | 6,653,091 | 2.1% | 1.8% | 1.8% | 2.1% | 2.6% |
| Total Current Assets | 72,272,484 | 85,875,894 | 84,389,707 | 81,233,895 | 74,771,961 | 27.6% | 30.3% | 29.9% | 29.4% | 28.7% |
| Assets whose use is limited, net of current portion | 47,123,518 | 54,429,142 | 54,963,606 | 66,064,543 | 63,675,098 | 18.0% | 19.2% | 19.5% | 23.9% | 24.4% |
| Investments | 16,944,697 | 21,510,816 | 13,009,540 | 7,138,341 | 7,118,433 | 6.5% | 7.6% | 4.6% | 2.6% | 2.7% |
| Investments in joint ventures | 16,969,568 | 13,500,324 | 13,731,843 | 14,562,738 | 18,190,809 | 6.5% | 4.8% | 4.9% | 5.3% | 7.0% |
| Property, Plant & Equipment - net | 96,189,597 | 96,295,455 | 96,188,497 | 94,065,559 | 88,275,419 | 36.7% | 34.0% | 34.1% | 34.1% | 33.9% |
| Other Assets | 12,789,825 | 11,678,494 | 20,183,543 | 13,022,113 | 8,567,926 | 4.9% | 4.1% | 7.1% | 4.7% | 3.3% |
| **TOTAL ASSETS** | **$262,289,689** | **$283,290,125** | **$282,466,736** | **$276,087,189** | **$260,599,646** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **LIABILITIES AND NET ASSETS** | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | |
| Accounts payable and accrued expenses | $23,210,287 | $30,730,676 | $34,874,835 | $35,964,615 | $33,429,551 | 8.8% | 10.8% | 12.3% | 13.0% | 12.8% |
| Line of credit | 8,272,642 | 6,500,000 | 6,500,000 | 5,600,000 | 3,800,000 | 3.2% | 2.3% | 2.3% | 2.0% | 1.5% |
| Current portion of long-term debt | 5,652,447 | 6,904,354 | 6,832,322 | 6,660,757 | 7,018,708 | 2.2% | 2.4% | 2.4% | 2.4% | 2.7% |
| Current portion of estimated settlements due to third-party payers | 2,104,534 | 2,793,775 | 4,512,361 | 5,743,160 | 3,124,803 | 0.8% | 1.0% | 1.6% | 2.1% | 1.2% |
| Current portion of accrued pension and other postretirement benefits | 11,329,346 | 3,897,164 | 6,085,518 | 193,769 | 190,189 | 4.3% | 1.4% | 2.2% | 0.1% | 0.1% |
| Other current Liabilities | 5,700,671 | 8,153,373 | 5,321,044 | 5,841,792 | 4,134,712 | 2.2% | 2.9% | 1.9% | 2.1% | 1.6% |
| Total Current Liabilities | 56,269,927 | 58,979,342 | 64,126,080 | 60,004,093 | 51,697,963 | 21.5% | 20.8% | 22.7% | 21.7% | 19.8% |
| Long-Term Liabilities | | | | | | | | | | |
| Long-term debt and capital lease obligations, net of current | 86,635,165 | 87,541,749 | 84,416,006 | 82,424,313 | 80,122,247 | 33.0% | 30.9% | 29.9% | 29.9% | 30.7% |
| Estimated self-insurance liabilities | 6,311,338 | 9,521,697 | 9,243,930 | 9,683,668 | 7,196,797 | 2.4% | 3.4% | 3.3% | 3.5% | 2.8% |
| Accrued pension and postretirement benefits | 56,772,305 | 74,618,608 | 38,111,463 | 45,796,486 | 62,407,379 | 21.6% | 26.3% | 13.5% | 16.6% | 23.9% |
| Estimated settlements due to third-party payers, net of current | 335,416 | 82,500 | 122,921 | 65,838 | - | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other liabilities | 803,881 | 944,968 | 597,187 | 419,002 | 467,711 | 0.3% | 0.3% | 0.2% | 0.2% | 0.2% |
| Total Long-Term Liabilities | 150,858,105 | 172,709,522 | 132,491,507 | 138,389,307 | 150,194,134 | 57.5% | 61.0% | 46.9% | 50.1% | 57.6% |
| Net Assets | | | | | | | | | | |
| Unrestricted | 41,815,956 | 36,549,384 | 70,965,928 | 59,544,873 | 42,167,565 | 15.9% | 12.9% | 25.1% | 21.6% | 16.2% |
| Temporarily restricted | 2,249,963 | 3,243,522 | 2,587,301 | 2,096,313 | 1,486,536 | 0.9% | 1.1% | 0.9% | 0.8% | 0.6% |
| Permanently restricted | 11,095,738 | 11,808,355 | 12,295,920 | 16,052,603 | 15,053,448 | 4.2% | 4.2% | 4.4% | 5.8% | 5.8% |
| Total Net Assets | 55,161,657 | 51,601,261 | 85,849,149 | 77,693,789 | 58,707,549 | 21.0% | 18.2% | 30.4% | 28.1% | 22.5% |
| **TOTAL LIABILITIES AND NET ASSETS** | **$262,289,689** | **$283,290,125** | **$282,466,736** | **$276,087,189** | **$260,599,646** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| *Cash-Free, Debt-free Net Working Capital (1)* | *$18,760,824* | *$18,710,558* | *$15,391,580* | *$11,786,811* | *$16,698,467* | | | | | |
| *As a % of net revenue* | *7.0%* | *6.4%* | *4.7%* | *3.6%* | *5.3%* | | | | | |

Source: Based on information provided by Management.

*Notes:*

(1) Net working capital is defined per Asset Purchase Agreement. Excludes cash and equivalents, investments (except joint ventures), debt, including accrued pension and post retirement liabilities.

**Historical Income Statement - ECHN**

| | FYE September 30, | | | | | Common-Size | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Revenues:** | | | | | | | | | | |
| Net Patient Service Revenue | $261,348,876 | $277,042,997 | $310,122,159 | $309,971,310 | $308,044,394 | 96.8% | 94.0% | 94.6% | 94.3% | 97.6% |
| Less Bad Debts | (11,106,480) | (11,285,210) | (11,142,202) | (10,216,094) | (10,899,289) | -4.1% | -3.8% | -3.4% | -3.1% | -3.5% |
| **Net Patient Revenue less Bad Debts** | **250,242,396** | **265,757,787** | **298,979,957** | **299,755,216** | **297,145,105** | **92.7%** | **90.2%** | **91.2%** | **91.2%** | **94.2%** |
| Contributions | 732,256 | 2,243,112 | 1,614,319 | 1,163,883 | 2,194,034 | 0.3% | 0.8% | 0.5% | 0.4% | 0.7% |
| Other revenues | 17,132,518 | 17,532,328 | 22,871,370 | 25,216,442 | 14,565,493 | 6.3% | 6.0% | 7.0% | 7.7% | 4.6% |
| Electronic Health Records | 975,412 | 3,833,172 | 2,630,820 | 1,786,134 | 830,386 | 0.4% | 1.3% | 0.8% | 0.5% | 0.3% |
| Contribution from VNHSC | - | 4,592,459 | - | - | - | 0.0% | 1.6% | 0.0% | 0.0% | 0.0% |
| Net assets released from restrictions | 801,123 | 638,113 | 1,871,227 | 833,650 | 832,608 | 0.3% | 0.2% | 0.6% | 0.3% | 0.3% |
| **Total Net Revenue** | **269,883,705** | **294,596,971** | **327,967,693** | **328,755,325** | **315,567,626** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Expenses:** | | | | | | | | | | |
| Salaries & wages | 134,218,139 | 139,915,729 | 163,729,402 | 162,727,445 | 156,774,464 | 49.7% | 47.5% | 49.9% | 49.5% | 49.7% |
| Fringe benefits | 35,696,855 | 40,155,469 | 47,592,094 | 43,859,398 | 44,024,084 | 13.2% | 13.6% | 14.5% | 13.3% | 14.0% |
| Total Salaries, Wages, & Benefits | 169,914,994 | 180,071,198 | 211,321,496 | 206,586,843 | 200,798,548 | 63.0% | 61.1% | 64.4% | 62.8% | 63.6% |
| Supplies and other expenses | 83,802,696 | 93,804,618 | 100,342,397 | 104,034,396 | 99,682,874 | 31.1% | 31.8% | 30.6% | 31.6% | 31.6% |
| Depreciation and amortization | 11,898,918 | 11,811,633 | 12,290,822 | 12,196,877 | 11,920,720 | 4.4% | 4.0% | 3.7% | 3.7% | 3.8% |
| Interest and financing costs | 4,224,420 | 3,981,831 | 3,900,483 | 3,764,488 | 3,445,934 | 1.6% | 1.4% | 1.2% | 1.1% | 1.1% |
| Total Interest, Depreciation & Amortizatio | 16,123,338 | 15,793,464 | 16,191,305 | 15,961,365 | 15,366,654 | 6.0% | 5.4% | 4.9% | 4.9% | 4.9% |
| **Total Operating Expenses** | **269,841,028** | **289,669,280** | **327,855,198** | **326,582,604** | **315,848,076** | **100.0%** | **98.3%** | **100.0%** | **99.3%** | **100.1%** |
| Operating Income | 42,677 | 4,927,691 | 112,495 | 2,172,721 | (280,450) | 0.0% | 1.7% | 0.0% | 0.7% | -0.1% |
| Non-Operating Income/(Expense) | (1,341,596) | (1,200,536) | (2,138,589) | (2,125,751) | (2,235,410) | -0.5% | -0.4% | -0.7% | -0.6% | -0.7% |
| **Net Income** | **(1,298,919)** | **3,727,155** | **(2,026,094)** | **46,970** | **(2,515,860)** | **-0.5%** | **1.3%** | **-0.6%** | **0.0%** | **-0.8%** |
| **EBITDA** | **$14,824,419** | **$19,520,619** | **$14,165,211** | **$16,008,335** | **$12,850,794** | **5.5%** | **6.6%** | **4.3%** | **4.9%** | **4.1%** |
| *Capital Expenditures* | *$10,620,037* | *$7,498,197* | *$12,104,527* | *$10,073,939* | *$6,130,580* | | | | | |
| *As a % of Total Net Revenue* | *3.9%* | *2.5%* | *3.7%* | *3.1%* | *1.9%* | | | | | |

Source: Based on information provided by management

**Historical Operational Analysis - ECHN** **(1)**

| | FYE September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Gross Outpatient Charges | 409,922,763 | 476,021,456 | 572,644,188 | 592,717,508 | 600,758,074 | **A** |
| Gross Inpatient Charges | 228,912,612 | 278,843,185 | 328,063,718 | 333,197,293 | 318,875,465 | **B** |
| Outpatient Adjustment Factor | 2.79 | 2.71 | 2.75 | 2.78 | 2.88 | **C = (A + B)/B** |
| Discharges | 11,796 | 11,350 | 11,909 | 11,451 | 10,918 | **D** |
| Adjusted Discharges | 32,920 | 30,726 | 32,696 | 31,821 | 31,487 | **E = C*D** |
| ER Visits | 74,297 | 72,925 | 72,201 | 62,392 | 60,668 | |
| Patient Days | 55,845 | 58,601 | 58,987 | 55,261 | 50,565 | **F** |
| Adjusted Patient Days | 155,849 | 158,641 | 161,950 | 153,564 | 145,829 | **G = C*F** |
| Beds In Service | 237 | 218 | 218 | 218 | 218 | **H** |
| Licensed Beds | 401 | 401 | 401 | 401 | 401 | |
| Available Patient Days | 86,505 | 79,570 | 79,570 | 79,570 | 79,570 | **I = H*365*Months In Period/12** |
| Occupancy Rate - Beds in Service | 64.6% | 73.6% | 74.1% | 69.4% | 63.5% | **J = F/I** |
| Occupancy Rate - Licenced Beds | 38.2% | 40.0% | 40.3% | 37.8% | 34.5% | |
| Average Length of Stay | 4.7 | 5.2 | 5.0 | 4.8 | 4.6 | **K = F/D** |
| Average Daily Census | 153 | 161 | 162 | 151 | 139 | **L = G/365*Months In Period/12** |
| Full Time Employees | N/A | N/A | N/A | 2,298 | 2,256 | |

*Notes:*
(1) Based on hospital operating data provided by management.

**Historical Balance Sheet - RGH**

| | FYE September 30, | | | | Common-Size | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| **ASSETS** | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and cash equivalents | $4,739,454 | $1,463,823 | $1,059,290 | $1,772,696 | 5.7% | 1.8% | 1.4% | 2.4% |
| Current portion of investments held under bond indentures | 501,284 | 467,222 | 364,771 | 323,965 | 0.6% | 0.6% | 0.5% | 0.4% |
| Accounts receivable, net | 10,246,785 | 10,959,585 | 10,269,970 | 10,900,702 | 12.2% | 13.7% | 13.4% | 14.6% |
| Inventory | 1,576,966 | 1,519,666 | 1,467,009 | 1,325,483 | 1.9% | 1.9% | 1.9% | 1.8% |
| Due from affliliated entities | 2,196,771 | 781,899 | 58,029 | 65,011 | 2.6% | 1.0% | 0.1% | 0.1% |
| Current portion of estimated settlements due from third-party payers | - | 853,555 | 384,274 | 148,435 | 0.0% | 1.1% | 0.5% | 0.2% |
| Prepaid expenses and other current assets | 270,651 | 218,802 | 276,211 | 201,349 | 0.3% | 0.3% | 0.4% | 0.3% |
| Total Current Assets | 19,531,911 | 16,264,552 | 13,879,554 | 14,737,641 | 23.3% | 20.4% | 18.1% | 19.7% |
| Total assets whose use is limited, net of current portion | 12,891,345 | 13,743,382 | 14,593,721 | 15,607,066 | 15.4% | 17.2% | 19.1% | 20.9% |
| Interest in net assets of ECHN CHF, Inc. | 2,629,614 | 3,254,582 | 3,616,191 | 3,599,134 | 3.1% | 4.1% | 4.7% | 4.8% |
| Investments | 7,740,794 | 9,554,311 | 3,088,116 | 2,068,819 | 9.3% | 12.0% | 4.0% | 2.8% |
| Investments in joint ventures | 2,858,713 | 3,127,553 | 3,208,828 | 3,489,604 | 3.4% | 3.9% | 4.2% | 4.7% |
| Property, Plant & Equipment - net | 31,151,854 | 30,472,774 | 27,654,664 | 25,700,876 | 37.2% | 38.2% | 36.1% | 34.4% |
| Other Assets | 6,854,302 | 3,451,619 | 10,502,780 | 9,583,805 | 8.2% | 4.3% | 13.7% | 12.8% |
| **TOTAL ASSETS** | **$83,658,533** | **$79,868,773** | **$76,543,854** | **$74,786,945** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **LIABILITIES AND NET ASSETS** | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts payable and accrued expenses | $4,898,568 | $5,969,615 | $6,096,840 | $6,181,391 | 5.9% | 7.5% | 8.0% | 8.3% |
| Current portion of long-term debt | 1,247,313 | 1,271,671 | 870,081 | 945,159 | 1.5% | 1.6% | 1.1% | 1.3% |
| Current portion of due to affiliates | 2,717,350 | 3,297,172 | 398,089 | - | 3.2% | 4.1% | 0.5% | 0.0% |
| Current portion of estimated settlements due to third-party payers | 684,512 | 1,157,913 | 1,040,198 | 1,132,410 | 0.8% | 1.4% | 1.4% | 1.5% |
| Current portion of accrued pension and other postretirement benefits | 2,650,753 | 1,164,039 | 1,401,749 | 288,603 | 3.2% | 1.5% | 1.8% | 0.4% |
| Other current Liabilities | 1,240,661 | 715,430 | 754,403 | 732,322 | 1.5% | 0.9% | 1.0% | 1.0% |
| Total Current Liabilities | 13,439,157 | 13,575,840 | 10,561,360 | 9,279,885 | 16.1% | 17.0% | 13.8% | 12.4% |
| Long-Term Liabilities | | | | | | | | |
| Long-term debt and capital lease obligations, net of current | 25,860,313 | 24,394,084 | 23,519,254 | 23,392,308 | 30.9% | 30.5% | 30.7% | 31.3% |
| Estimated self-insurance liabilities | 1,813,842 | 3,307,458 | 2,423,371 | 3,566,892 | 2.2% | 4.1% | 3.2% | 4.8% |
| Accrued pension and postretirement benefits | 13,402,108 | 17,147,802 | 8,855,195 | 10,081,347 | 16.0% | 21.5% | 11.6% | 13.5% |
| Other liabilities | 125,749 | 128,578 | 132,211 | 132,211 | 0.2% | 0.2% | 0.2% | 0.2% |
| Total Long-Term Liabilities | 41,202,012 | 44,977,922 | 34,930,031 | 37,172,758 | 49.3% | 56.3% | 45.6% | 49.7% |
| Net Assets | | | | | | | | |
| Unrestricted | 24,688,727 | 17,066,097 | 26,773,989 | 24,211,838 | 29.5% | 21.4% | 35.0% | 32.4% |
| Temporarily restricted | 912,532 | 615,748 | 561,463 | 549,043 | 1.1% | 0.8% | 0.7% | 0.7% |
| Permanently restricted | 3,416,105 | 3,633,166 | 3,717,011 | 3,573,421 | 4.1% | 4.5% | 4.9% | 4.8% |
| Total Net Assets | 29,017,364 | 21,315,011 | 31,052,463 | 28,334,302 | 34.7% | 26.7% | 40.6% | 37.9% |
| **TOTAL LIABILITIES AND NET ASSETS** | **$83,658,533** | **$79,868,773** | **$76,543,854** | **$74,786,945** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| *Debt-free Working Capital* | *7,340,067* | *3,960,383* | *4,188,275* | *6,402,915* | | | | |
| *As a % of net revenue* | *11.2%* | *5.5%* | *5.6%* | *8.5%* | | | | |

Source: Based on information provided by Management.

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit C-5**

NAVIGANT

**FINAL**

**Historical Income Statement - RGH**

| | FYE September 30, | | | | | Common-Size | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Revenues:** | | | | | | | | | | |
| Net Patient Service Revenue | $63,387,116 | $67,847,638 | $73,037,858 | $71,329,965 | | 97.1% | 95.0% | 97.4% | 95.2% | 0.0% |
| Less Bad Debts | (2,925,278) | (3,309,948) | (4,127,214) | (2,801,283) | | -4.5% | -4.6% | -5.5% | -3.7% | 0.0% |
| **Net Patient Revenue less Bad Debts** | **60,461,838** | **64,537,690** | **68,910,644** | **68,528,682** | **63,002,481** | **92.7%** | **90.4%** | **91.9%** | **91.5%** | **96.6%** |
| Change in interest in unrestricted net assets of | 237,954 | 192,851 | 253,309 | 315,697 | 123,590 | 0.4% | 0.3% | 0.3% | 0.4% | 0.2% |
| Other operating revenue | | | | | 1,892,379 | | | | | 2.9% |
| Joint ventures | | | | | 132,721 | | | | | 0.2% |
| Investment income/realized gains | | | | | 26,701 | | | | | 0.0% |
| Other revenues | 3,888,629 | 5,020,030 | 4,492,026 | 5,227,522 | | 6.0% | 7.0% | 6.0% | 7.0% | |
| Electronic Health Records | 618,428 | 1,626,870 | 1,220,153 | 799,300 | | 0.9% | 2.3% | 1.6% | 1.1% | |
| Net assets released from restrictions | 48,044 | 31,857 | 112,828 | 49,147 | 50,382 | 0.1% | 0.0% | 0.2% | 0.1% | 0.1% |
| **Total Net Revenue** | **65,254,893** | **71,409,298** | **74,988,960** | **74,920,348** | **65,228,254** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Expenses:** | | | | | | | | | | |
| Salaries & wages | 29,535,778 | 30,268,391 | 31,509,639 | 32,460,253 | | 45.3% | 42.4% | 42.0% | 43.3% | |
| Fringe benefits | 8,838,640 | 10,223,293 | 10,024,601 | 9,360,797 | | 13.5% | 14.3% | 13.4% | 12.5% | |
| Total Salaries, Wages & Benefits | 38,374,418 | 40,491,684 | 41,534,240 | 41,821,050 | 40,377,767 | 58.8% | 56.7% | 55.4% | 55.8% | 61.9% |
| Supplies and other expenses | 21,930,029 | 25,886,843 | 25,888,529 | 26,367,709 | 24,653,758 | 33.6% | 36.3% | 34.5% | 35.2% | 37.8% |
| Depreciation and amortization | 3,672,297 | 3,811,952 | 3,565,031 | 3,281,014 | | 5.6% | 5.3% | 4.8% | 4.4% | |
| Interest and financing costs | 1,115,177 | 719,107 | 682,298 | 689,882 | | 1.7% | 1.0% | 0.9% | 0.9% | |
| Total Interest, Depreciation & Amortization | 4,787,474 | 4,531,059 | 4,247,329 | 3,970,896 | 3,836,390 | 7.3% | 6.3% | 5.7% | 5.3% | 5.9% |
| **Total Operating Expenses** | **65,091,921** | **70,909,586** | **71,670,098** | **72,159,655** | **68,867,915** | **99.8%** | **99.3%** | **95.6%** | **96.3%** | **105.6%** |
| **EBITDA** | **4,950,446** | **5,030,771** | **7,566,191** | **6,731,589** | **196,729** | **7.6%** | **7.0%** | **10.1%** | **9.0%** | **0.3%** |
| Operating Income | 162,972 | 499,712 | 3,318,862 | 2,760,693 | (3,639,661) | 0.2% | 0.7% | 4.4% | 3.7% | -5.6% |
| Non-Operating Income/(Expense) | (855,256) | (179,961) | (660,236) | (378,564) | (546,692) | -1.3% | -0.3% | -0.9% | -0.5% | -0.8% |
| **Net Income** | **(692,284)** | **319,751** | **2,658,626** | **2,382,129** | **(4,186,353)** | **-1.1%** | **0.4%** | **3.5%** | **3.2%** | **-6.4%** |
| *Capital Expenditures* | *$2,020,432* | *$1,728,554* | *$746,921* | *$1,327,226* | *n.a* | | | | | |
| *As a % of Total Net Revenue* | *3.1%* | *2.4%* | *1.0%* | *1.8%* | *n.a* | | | | | |

Source: Based on information provided by management

**Historical Operational Analysis - RGH** **(1)**

| | FYE September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Gross Outpatient Charges | 93,948,299 | 118,179,406 | 143,414,268 | 150,411,287 | 152,882,315 | **A** |
| Gross Inpatient Charges | 54,124,324 | 69,889,867 | 79,250,361 | 76,888,785 | 74,614,647 | **B** |
| Outpatient Adjustment Factor | 2.74 | 2.69 | 2.81 | 2.96 | 3.05 | **C = (A + B)/B** |
| Discharges | 2,515 | 2,519 | 2,567 | 2,341 | 2,112 | **D** |
| Adjusted Discharges | 6,881 | 6,778 | 7,212 | 6,921 | 6,439 | **E = C*D** |
| ER Visits | 26,463 | 26,422 | 25,136 | 21,351 | 20,889 | |
| Outpatient Visits | N/A | N/A | N/A | 421,124 | NA | |
| Patient Days | 12,370 | 13,056 | 12,325 | 11,155 | 9,873 | **F** |
| Adjusted Patient Days | 33,842 | 35,133 | 34,629 | 32,977 | 30,102 | **G = C*F** |
| Beds In Service | 66 | 47 | 47 | 47 | 47 | **H** |
| Licensed Beds | 118 | 118 | 118 | 118 | 118 | |
| Available Patient Days | 24,090 | 17,155 | 17,155 | 17,155 | 17,155 | **I = H*365*Months In Period/12** |
| Occupancy Rate - Beds in Service | 51.3% | 76.1% | 71.8% | 65.0% | 57.6% | **J = F/I** |
| Occupancy Rate - Licensed Beds | 28.7% | 30.3% | 28.6% | 25.9% | 22.9% | |
| Average Length of Stay | 4.9 | 5.2 | 4.8 | 4.8 | 4.7 | **K = F/D** |
| Average Daily Census | 34 | 36 | 34 | 31 | 27 | **L = G/365*Months In Period/12** |
| Full Time Employees | 405 | 377 | 378 | 423 | 373 | |

*Notes:*
(1) Based on hospital operating data provided by management.

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit C-7**

NAVIGANT
FINAL

**Historical Balance Sheet - MMH**

| | FYE September 30, | | | | Common-Size | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| **ASSETS** | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and cash equivalents | $10,880,739 | $6,414,687 | $12,239,488 | $9,361,439 | 7.2% | 3.8% | 7.2% | 5.8% |
| Current portion of investments held under bond indentures | 803,195 | 4,781,749 | 1,300,096 | 653,623 | 0.5% | 2.8% | 0.8% | 0.4% |
| Accounts receivable, net | 24,700,330 | 26,534,856 | 27,182,276 | 25,099,884 | 16.3% | 15.6% | 15.9% | 15.5% |
| Inventory | 2,591,838 | 2,660,785 | 3,245,125 | 3,876,042 | 1.7% | 1.6% | 1.9% | 2.4% |
| Due from affliliated entities | 419,887 | 484,258 | 370,120 | 142,498 | 0.3% | 0.3% | 0.2% | 0.1% |
| Current portion of estimated settlements due from third-party payers | 432,832 | 3,549,365 | 3,078,822 | 3,454,150 | 0.3% | 2.1% | 1.8% | 2.1% |
| Prepaid expenses and other current assets | 2,506,129 | 2,028,449 | 2,316,130 | 2,357,425 | 1.7% | 1.2% | 1.4% | 1.5% |
| Total Current Assets | 42,334,950 | 46,454,149 | 49,732,057 | 44,945,061 | 27.9% | 27.3% | 29.1% | 27.8% |
| Assets whose use is limited, net of current portion | 18,522,584 | 20,159,091 | 17,681,970 | 25,860,728 | 12.2% | 11.9% | 10.3% | 16.0% |
| Interest in net assets of ECHN CHF, Inc. | 3,872,533 | 6,199,192 | 7,278,631 | 7,323,190 | 2.6% | 3.6% | 4.3% | 4.5% |
| Investments | 7,217,602 | 8,547,933 | 4,366,493 | 1,339,234 | 4.8% | 5.0% | 2.6% | 0.8% |
| Investments in joint ventures | 3,719,835 | 3,565,975 | 3,501,635 | 3,849,302 | 2.5% | 2.1% | 2.0% | 2.4% |
| Property, Plant & Equipment - net | 52,084,498 | 51,317,622 | 54,574,351 | 55,717,642 | 34.3% | 30.2% | 31.9% | 34.4% |
| Other Assets | 24,077,486 | 33,827,422 | 34,019,637 | 22,722,234 | 15.9% | 19.9% | 19.9% | 14.0% |
| **TOTAL ASSETS** | **$151,829,488** | **$170,071,384** | **$171,154,774** | **$161,757,391** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **LIABILITIES AND NET ASSETS** | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts payable and accrued expenses | $15,290,987 | $17,702,182 | $21,391,578 | $21,842,838 | 10.1% | 10.4% | 12.5% | 13.5% |
| Line of credit | 6,500,000 | 6,500,000 | 6,500,000 | 5,600,000 | 4.3% | 3.8% | 3.8% | 3.5% |
| Current portion of long-term debt | 3,467,143 | 3,898,759 | 3,909,618 | 4,092,102 | 2.3% | 2.3% | 2.3% | 2.5% |
| Current portion of due to affiliates | 2,283,655 | 818,583 | - | 23,158 | 1.5% | 0.5% | 0.0% | 0.0% |
| Current portion of estimated settlements due to third-party payers | 1,420,022 | 1,343,126 | 2,943,941 | 4,285,117 | 0.9% | 0.8% | 1.7% | 2.6% |
| Current portion of accrued pension and other postretirement benefits | 8,678,593 | 2,733,125 | 4,683,769 | 1,025,166 | 5.7% | 1.6% | 2.7% | 0.6% |
| Other current Liabilities | 2,557,626 | 2,426,820 | 2,482,951 | 2,653,756 | 1.7% | 1.4% | 1.5% | 1.6% |
| Total Current Liabilities | 40,198,026 | 35,422,595 | 41,911,857 | 39,522,137 | 26.5% | 20.8% | 24.5% | 24.4% |
| Long-Term Liabilities | | | | | | | | |
| Long-term debt and capital lease obligations, net of current | 49,708,745 | 51,672,633 | 50,793,813 | 50,421,026 | 32.7% | 30.4% | 29.7% | 31.2% |
| Estimated self-insurance liabilities | 5,736,899 | 9,814,802 | 6,830,954 | 6,835,215 | 3.8% | 5.8% | 4.0% | 4.2% |
| Accrued pension and postretirement benefits | 43,370,197 | 57,470,806 | 29,256,268 | 34,595,139 | 28.6% | 33.8% | 17.1% | 21.4% |
| Due to affiliates | - | - | 7,220,571 | 5,298,863 | 0.0% | 0.0% | 4.2% | 3.3% |
| Other liabilities | 673,979 | 684,775 | 409,571 | 283,594 | 0.4% | 0.4% | 0.2% | 0.2% |
| Total Long-Term Liabilities | 99,489,820 | 119,643,016 | 94,511,177 | 97,433,837 | 65.5% | 70.3% | 55.2% | 60.2% |
| Net Assets | | | | | | | | |
| Unrestricted | 3,473,307 | 4,925,515 | 27,759,929 | 11,344,473 | 2.3% | 2.9% | 16.2% | 7.0% |
| Temporarily restricted | 988,702 | 1,905,069 | 1,392,902 | 974,762 | 0.7% | 1.1% | 0.8% | 0.6% |
| Permanently restricted | 7,679,633 | 8,175,189 | 8,578,909 | 12,479,182 | 5.1% | 4.8% | 5.0% | 7.7% |
| Total Net Assets | 12,141,642 | 15,005,773 | 37,731,740 | 24,798,417 | 8.0% | 8.8% | 22.0% | 15.3% |
| **TOTAL LIABILITIES AND NET ASSETS** | **$151,829,488** | **$170,071,384** | **$174,154,774** | **$161,754,391** | **100.0%** | **100.0%** | **101.8%** | **100.0%** |
| *Debt-free Working Capital* | *$12,535,683* | *$21,441,172* | *$17,512,302* | *$5,422,924* | | | | |
| *As a % of net revenue* | *7.2%* | *11.4%* | *9.2%* | *2.9%* | | | | |

Source: Based on information provided by Management.

**Historical Income Statement - MMH**

| | FYE September 30, | | | | | Common-Size | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Revenues:** | | | | | | | | | | |
| Net Patient Service Revenue | $166,602,261 | $175,217,566 | $175,818,082 | $178,026,737 | | 96.0% | 92.9% | 92.7% | 93.9% | 0.0% |
| Less Bad Debts | (6,164,670) | (6,382,307) | (5,518,461) | (5,822,470) | | -3.6% | -3.4% | -2.9% | -3.1% | 0.0% |
| **Net Patient Revenue less Bad Debts** | **160,437,591** | **168,835,259** | **170,299,621** | **172,204,267** | **176,292,453** | **92.4%** | **89.5%** | **89.8%** | **90.9%** | **93.4%** |
| Change in interest in unrestricted net assets of ECHN | 455,096 | 2,035,698 | 961,465 | 496,356 | 1,889,272 | 0.3% | 1.1% | 0.5% | 0.3% | 1.0% |
| Other operating revenue | | | | | 9,394,083 | | | | | 5.0% |
| Joint ventures | | | | | 337,654 | | | | | 0.2% |
| Investment income/realized gains | | | | | 175,415 | | | | | 0.1% |
| Other revenues | 11,857,772 | 15,303,250 | 15,458,360 | 15,370,698 | | 6.8% | 8.1% | 8.2% | 8.1% | |
| Electronic Health Records | 356,984 | 2,206,302 | 1,410,667 | 986,834 | | 0.2% | 1.2% | 0.7% | 0.5% | |
| Net assets released from restrictions | 478,506 | 316,686 | 1,458,982 | 486,908 | 590,724 | 0.3% | 0.2% | 0.8% | 0.3% | 0.3% |
| **Total Net Revenue** | **173,585,949** | **188,697,195** | **189,589,095** | **189,545,063** | **188,679,601** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Expenses:** | | | | | | | | | | |
| Salaries & wages | 77,581,560 | 81,549,825 | 83,909,349 | 83,606,297 | | 44.7% | 43.2% | 44.3% | 44.1% | 0.0% |
| Fringe benefits | 21,779,464 | 25,465,287 | 27,658,791 | 25,720,253 | | 12.5% | 13.5% | 14.6% | 13.6% | 0.0% |
| Total Salaries, Wages, & Benefits | 99,361,024 | 107,015,112 | 111,568,140 | 109,326,550 | 107,278,932 | 57.2% | 56.7% | 58.8% | 57.7% | 56.9% |
| Supplies and other expenses | 58,149,870 | 62,035,761 | 66,966,600 | 66,276,903 | 62,970,889 | 33.5% | 32.9% | 35.3% | 35.0% | 33.4% |
| Depreciation and amortization | 7,107,904 | 6,896,812 | 7,115,302 | 7,116,905 | | 4.1% | 3.7% | 3.8% | 3.8% | |
| Interest and financing costs | 2,539,198 | 2,714,044 | 2,685,044 | 2,589,201 | | 1.5% | 1.4% | 1.4% | 1.4% | |
| Total Interest, Depreciation & Amortization | 9,647,102 | 9,610,856 | 9,800,346 | 9,706,106 | 9,474,502 | 5.6% | 5.1% | 5.2% | 5.1% | 5.0% |
| **Total Operating Expenses** | **167,157,996** | **178,661,729** | **188,335,086** | **185,309,559** | **179,724,323** | **96.3%** | **94.7%** | **99.3%** | **97.8%** | **95.3%** |
| **EBITDA** | **16,075,055** | **19,646,322** | **11,054,355** | **13,941,610** | **18,429,780** | **9.3%** | **10.4%** | **5.8%** | **7.4%** | **9.8%** |
| Operating Income | 6,427,953 | 10,035,466 | 1,254,009 | 4,235,504 | 8,955,278 | 3.7% | 5.3% | 0.7% | 2.2% | 4.7% |
| Non-Operating Income/(Expense) | (364,307) | (868,637) | (1,466,699) | (1,743,322) | (1,638,670) | -0.2% | -0.5% | -0.8% | -0.9% | -0.9% |
| **Net Income** | **$6,063,646** | **$9,166,829** | **($212,690)** | **$2,492,182** | **$7,316,608** | **3.5%** | **4.9%** | **-0.1%** | **1.3%** | **3.9%** |
| *Capital Expenditures* | *$7,386,712* | *$5,202,968* | *$10,293,692* | *$8,260,196* | *n.a* | | | | | |
| *As a % of Total Net Revenue* | *4.3%* | *2.8%* | *5.4%* | *4.4%* | *n.a* | | | | | |

Source: Based on information provided by management

**Historical Operational Analysis - MMH** (1)

| | FYE September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Gross Outpatient Charges | 270,967,534 | 306,599,578 | 337,511,330 | 369,575,729 | 379,110,517 | A |
| Gross Inpatient Charges | 150,353,329 | 185,302,228 | 225,513,086 | 232,383,939 | 219,935,974 | B |
| Outpatient Adjustment Factor | 2.80 | 2.65 | 2.50 | 2.59 | 2.72 | C = (A + B)/B |
| Discharges | 9,281 | 8,831 | 9,342 | 9,110 | 8,806 | D |
| Adjusted Discharges | 26,007 | 23,443 | 23,324 | 23,598 | 23,985 | E = C*D |
| ER Visits | 47,834 | 46,503 | 47,065 | 41,041 | 39,779 | |
| Outpatient Visits | N/A | N/A | N/A | 1,631,301 | NA | |
| Patient Days | 43,475 | 45,545 | 46,662 | 44,106 | 40,692 | F |
| Adjusted Patient Days | 121,826 | 120,903 | 116,498 | 114,251 | 110,834 | G = C*F |
| Beds In Service | 171 | 171 | 171 | 171 | 171 | H |
| Licensed Beds | 283 | 283 | 283 | 283 | 283 | |
| Available Patient Days | 62,415 | 62,415 | 62,415 | 62,415 | 62,415 | I = H*365*Months In Period/12 |
| Occupancy Rate - Beds in Service | 69.7% | 73.0% | 74.8% | 70.7% | 65.2% | J = F/I |
| Occupancy Rate - Licensed Beds | 42.1% | 44.1% | 45.2% | 42.7% | 39.4% | |
| Average Length of Stay | 4.7 | 5.2 | 5.0 | 4.8 | 4.6 | K = F/D |
| Average Daily Census | 119 | 125 | 128 | 121 | 111 | L = G/365*Months In Period/12 |
| Full Time Employees | 1139 | 1076 | 1109 | 1153 | 1,133 | |

*Notes:*
(1) Based on hospital operating data provided by management.

**Payor Mix Analysis**

| RGH Gross Charges By Payor % (1) | | | | | |
|---|---|---|---|---|---|
| Payor | FYE 2012 | FYE 2013 | FYE 2014 | FYE 2015 | Benchmark (2) |
| Medicare | 46.0% | 46.5% | 43.8% | 45.2% | **24.1%** |
| Managed Care/Commercial | 32.6% | 32.3% | 34.0% | 31.6% | **53.5%** |
| Medicaid | 16.1% | 16.4% | 18.0% | 19.8% | **11.2%** |
| Self-pay/Uninsured | 3.5% | 3.0% | 2.4% | 1.5% | **12.3%** |
| Other | 1.4% | 1.3% | 1.1% | 1.2% | |
| Other Governmental | 0.5% | 0.5% | 0.6% | 0.6% | |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | |

| MMH Gross Charges By Payor % (1) | | | | | |
|---|---|---|---|---|---|
| Payor | FYE 2012 | FYE 2013 | FYE 2014 | FYE 2015 | Benchmark (2) |
| Medicare | 42.9% | 43.2% | 42.5% | 43.0% | **24.1%** |
| Managed Care/Commercial | 35.0% | 33.9% | 33.3% | 32.2% | **53.5%** |
| Medicaid | 17.5% | 18.4% | 20.9% | 22.1% | **11.2%** |
| Self-pay/Uninsured | 3.1% | 3.0% | 1.9% | 1.4% | **12.3%** |
| Other | 1.0% | 1.0% | 0.9% | 0.8% | |
| Other Governmental | 0.5% | 0.5% | 0.4% | 0.6% | |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | |

*Notes:*

(1) Based on payor mix data provided by management for Rockville General and Manchester Memorial hospitals.

(2) The benchmarks based on the median payor mix from an analysis of guideline public companies. See Exhibit D-7.

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Dollars in Millions)*

**Exhibit D-1**

NAVIGANT

**FINAL**

**Guideline Company - Summary**

| | BEV | TTM Revenue | TTM EBITDA | NTM Revenue | NTM EBITDA | BEV/ TTM Revenue | BEV/ TTM EBITDA | BEV/ NTM Revenue | BEV/ NTM EBITDA |
|---|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | $19,449 | $19,525 | $2,287 | $20,153 | $2,899 | 1.0x | 8.5x | 1.0x | 6.7x |
| Universal Health Services Inc. | 15,703 | 9,268 | 1,692 | 10,562 | 1,766 | 1.7x | 9.3x | 1.5x | 8.9x |
| LifePoint Health, Inc. | 5,119 | 5,531 | 633 | 6,494 | 780 | 0.9x | 8.1x | 0.8x | 6.6x |
| HCA Holdings, Inc. | 62,793 | 40,262 | 7,918 | 41,938 | 8,318 | 1.6x | 7.9x | 1.5x | 7.5x |
| Tenet Healthcare Corp. | 19,059 | 19,254 | 2,241 | 19,113 | 2,462 | 1.0x | 8.5x | 1.0x | 7.7x |
| | | | | | Median | 1.0x | 8.5x | 1.0x | 7.5x |
| | | | | | Average | 1.2x | 8.5x | 1.1x | 7.5x |
| Financial Metric for Eastern Connecticut Health Network, Inc. (In 000's) | | | | | (1) | $313,562 | $10,846 | $303,633 | $11,281 |
| Selected Market Multiples | | | | | (2) | 0.20 | 4.6x | 0.2x | 4.3x |
| **Preliminary Indication of Business Enterprise Value - Marketable, Minority Basis** | | | | | | **62,712** | **49,750** | **60,727** | **48,401** |
| Less: Interest-Bearing Debt | | | | | (3) | 78,420 | 78,420 | 78,420 | 78,420 |
| Preliminary Indication of Unadjusted Equity Value - Marketable, Minority Basis | | | | | | (15,708) | (28,670) | (17,693) | (30,019) |
| Control Premium Calculation | | | | | | | | | |
| Actual Equity Weighting (Ea) | | | | | | (25.0%) | (57.6%) | (29.1%) | (62.0%) |
| Optimal Equity Weighting (Eo) | | | | | | 50.0% | 50.0% | 50.0% | 50.0% |
| Control Premium Based on Optimal Capital Structure (C Po) | | | | | (4) | 10.0% | 10.0% | 10.0% | 10.0% |
| Control Premium Based on Actual Capital Structure (C Pa) | | | | | | n.a | n.a | n.a | n.a |
| Plus: Control Premium | | | | | (0) | n.a | n.a | n.a | n.a |
| Preliminary Indication of Unadjusted Equity Value - Marketable, Control Basis | | | | | | (15,708) | (28,670) | (17,693) | (30,019) |
| Plus: Interest-Bearing Debt | | | | | | 78,420 | 78,420 | 78,420 | 78,420 |
| **Indicated Business Enterprise Value - Marketable, Control Basis** | | | | | | $62,712 | $49,750 | $60,727 | $48,401 |
| Weighting | | | | | (5) | 25.0% | 25.0% | 25.0% | 25.0% |
| Preliminary Business Enterprise Value (In 000's) | | | | | | | | | $55,397 |
| Plus: Joint Venture Interests | | | | | (6) | | | | 13,187 |
| Plus: Real Estate Joint Venture Interests | | | | | (7) | | | | 1,760 |
| **Business Enterprise Value (In 000's)** | | | | | | | | | **$70,344** |

*Notes:*

(1) See Exhibit B-2, Projected Income Statement.
(2) Based on analysis of guideline companies and subject company metrics, after adjustments for differences in profitability, future growth, and risk.
(3) Based on Management's Net Proceeds Analysis as of September 30, 2015.
(4) Control premium based on transaction data from Irving Levin Associates, Inc. and CapitalIQ.
(5) Most weight was given to the EBITDA indication as this metric is most commonly used by buyers and sellers in the hospital M&A market.
BEV = Business Enterprise Value
EBITDA = Earnings Before Interest, Tax, Depreciation, and Amortization
(6) See Exhibit F-4, Joint Venture Analysis.
(7) See Exhibit F-3, Real Property - Summary of Fair Market Values.

**Guideline Company - Multiples**

| Company Name: | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. |
|---|---|---|---|---|---|
| | CYH | UHS | LPNT | HCA | THC |
| As Of: | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 |
| Stock Price As of: 09/30/2015 | $18.51 | $124.72 | $69.25 | $78.05 | $28.93 |
| Shares Outstanding | 110.3 | 98.9 | 44.5 | 410.6 | 98.8 |
| Market Value of Equity | $2,042 | $12,334 | $3,082 | $32,045 | $2,857 |
| Interest Bearing Debt | 16,989 | 3,098 | 2,206 | 29,905 | 14,754 |
| Preferred Stock | - | - | - | - | - |
| Minority Interest | 604 | 311 | 144 | 1,482 | 1,898 |
| Market Value of Invested Capital (MVIC) | 19,635 | 15,743 | 5,432 | 63,432 | 19,509 |
| Less: Cash and Cash Equivalents | 186 | 40 | 313 | 639 | 450 |
| Enterprise Value (EV) | $19,449 | $15,703 | $5,119 | $62,793 | $19,059 |
| **Last Fiscal Year (LFY)** | | | | | |
| Revenue | $19,437 | $9,043 | $5,214 | $39,678 | $18,634 |
| EBITDA | $2,387 | $1,658 | $646 | $7,869 | $2,177 |
| EBITDA % | 12.3% | 18.3% | 12.4% | 19.8% | 11.7% |
| EBIT | $1,427 | $1,259 | $388 | $5,965 | $1,380 |
| EBIT % | 7.3% | 13.9% | 7.4% | 15.0% | 7.4% |
| LFY Multiples | | | | | |
| Revenue | 1.0x | 1.7x | 1.0x | 1.6x | 1.0x |
| EBITDA | 8.1x | 9.5x | 7.9x | 8.0x | 8.8x |
| EBIT | 13.6x | 12.5x | 13.2x | 10.5x | 13.8x |
| **Trailing Twelve Months (TTM)** | | | | | |
| Revenue | $19,525 | $9,268 | $5,531 | $40,262 | $19,254 |
| EBITDA | $2,287 | $1,692 | $633 | $7,918 | $2,241 |
| EBITDA % | 11.7% | 18.3% | 11.4% | 19.7% | 11.6% |
| EBIT | $1,327 | $1,289 | $359 | $6,008 | $1,439 |
| EBIT % | 6.8% | 13.9% | 6.5% | 14.9% | 7.5% |
| TTM Multiples | | | | | |
| Revenue | 1.0x | 1.7x | 0.9x | 1.6x | 1.0x |
| EBITDA | 8.5x | 9.3x | 8.1x | 7.9x | 8.5x |
| EBIT | 14.7x | 12.2x | 14.3x | 10.5x | 13.2x |
| **Next Twelve Months (NTM)** | | | | | |
| Revenue | $20,153 | $10,562 | $6,494 | $41,938 | $19,113 |
| EBITDA | $2,899 | $1,766 | $780 | $8,318 | $2,462 |
| EBITDA % | 14.4% | 16.7% | 12.0% | 19.8% | 12.9% |
| FY1 Multiples | | | | | |
| Revenue | 1.0x | 1.5x | 0.8x | 1.5x | 1.0x |
| EBITDA | 6.7x | 8.9x | 6.6x | 7.5x | 7.7x |
| **2 Years Forward** | | | | | |
| Revenue | $20,855 | $11,127 | $6,854 | $44,034 | $19,841 |
| EBITDA | $2,971 | $1,874 | $843 | $8,722 | $2,600 |
| EBITDA % | 14.2% | 16.8% | 12.3% | 19.8% | 13.1% |
| FY2 Multiples | | | | | |
| Revenue | 0.9x | 1.4x | 0.7x | 1.4x | 1.0x |
| EBITDA | 6.5x | 8.4x | 6.1x | 7.2x | 7.3x |

| | BEV/ LFY Revenue | BEV/ LFY EBITDA | BEV/ TTM Revenue | BEV/ TTM EBITDA | BEV/ NTM Revenue | BEV/ NTM EBITDA |
|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 1.0x | 8.1x | 1.0x | 8.5x | 1.0x | 6.7x |
| Universal Health Services Inc. | 1.7x | 9.5x | 1.7x | 9.3x | 1.5x | 8.9x |
| LifePoint Health, Inc. | 1.0x | 7.9x | 0.9x | 8.1x | 0.8x | 6.6x |
| HCA Holdings, Inc. | 1.6x | 8.0x | 1.6x | 7.9x | 1.5x | 7.5x |
| Tenet Healthcare Corp. | 1.0x | 8.8x | 1.0x | 8.5x | 1.0x | 7.7x |
| **Low** | 1.0x | 7.9x | 0.9x | 7.9x | 0.8x | 6.6x |
| **25th Percentile** | 1.0x | 8.0x | 1.0x | 8.1x | 1.0x | 6.7x |
| **Median** | 1.0x | 8.1x | 1.0x | 8.5x | 1.0x | 7.5x |
| **75th Percentile** | 1.6x | 8.8x | 1.6x | 8.5x | 1.5x | 7.7x |
| **High** | 1.7x | 9.5x | 1.7x | 9.3x | 1.5x | 8.9x |
| **Selected Multiple** | | | **n.a** | **4.6x** | **n.a** | **4.3x** |

*Notes:*
*Source: Capital IQ*

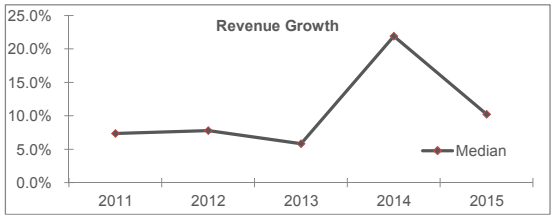
**Guideline Company - Ratios**

| | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. | Eastern Connecticut Health Network, Inc. | Range of Ratios for Guideline Companies | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CYH | UHS | LPNT | HCA | THC | ECHN | | | | |
| *Trailing Twelve Months Ending:* | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | High | Low | Median | Average |
| **Liquidity Ratios** | | | | | | | | | | |
| Cash & Equivalents / Total Assets | 0.7% | 0.4% | 5.6% | 2.0% | 1.9% | 6.2% | 5.6% | 0.4% | 1.9% | 2.1% |
| Current Ratio | 1.8 | 1.4 | 2.1 | 1.5 | 1.5 | 1.4 | 2.1 | 1.4 | 1.5 | 1.7 |
| Quick Ratio | 1.6 | 1.3 | 1.9 | 1.2 | 1.5 | 1.3 | 1.9 | 1.2 | 1.5 | 1.5 |
| Days Cash on Hand | 4.0 | 2.0 | 25.7 | 7.4 | 10.4 | 19.6 | 25.7 | 2.0 | 7.4 | 9.9 |
| **Working Capital Ratios** | | | | | | | | | | |
| Working Capital % of Sales | 12.3% | 5.7% | 13.5% | 7.4% | 12.2% | 7.3% | 13.5% | 5.7% | 12.2% | 10.2% |
| Debt-Free Working Capital % of Sales | 13.5% | 6.7% | 14.0% | 11.0% | 12.8% | 9.5% | 14.0% | 6.7% | 12.8% | 11.6% |
| Cash-Free Debt-Free Working Capital % of Sales | 12.5% | 6.2% | 7.9% | 9.3% | 10.3% | 4.4% | 12.5% | 6.2% | 9.3% | 9.3% |
| **Efficiency Ratios** | | | | | | | | | | |
| Accounts Receivable Turnover | 5.3 | 6.6 | 6.8 | 6.7 | 6.2 | 7.6 | 6.8 | 5.3 | 6.6 | 6.3 |
| Days' Receivable | 68.8 | 55.3 | 53.4 | 54.4 | 58.7 | 48.1 | 68.8 | 48.1 | 55.3 | 58.1 |
| Accounts Payable Turnover | 9.9 | 4.6 | 20.4 | 13.0 | 9.6 | 9.0 | 20.4 | 4.6 | 9.9 | 11.5 |
| Days' Payable | 37.0 | 79.2 | 17.9 | 28.1 | 38.2 | 40.6 | 79.2 | 17.9 | 37.0 | 40.1 |
| Inventory Turnover | 20.9 | 45.1 | 27.5 | 17.7 | 41.9 | 54.1 | 45.1 | 17.7 | 27.5 | 30.6 |
| Days' Inventory | 17.4 | 8.1 | 13.3 | 20.6 | 8.7 | 6.7 | 20.6 | 6.7 | 13.3 | 13.6 |
| Net PP&E Turnover | 1.9 | 2.3 | 2.1 | 2.7 | 2.5 | 3.6 | 2.7 | 1.9 | 2.3 | 2.3 |
| Asset Turnover | 0.7 | 1.0 | 0.9 | 1.2 | 0.8 | 1.2 | 1.2 | 0.7 | 0.9 | 0.9 |
| Cash Conversion Cycle | 49.2 | (15.8) | 48.8 | 47.0 | 29.2 | 14.3 | 49.2 | (15.8) | 47.0 | 31.7 |
| **Leverage Ratios** | | | | | | | | | | |
| Interest Coverage | 1.8 | 10.9 | 3.5 | 3.4 | 1.7 | 0.3 | 10.9 | 1.7 | 3.4 | 4.2 |
| Debt / Book Capital | 77.8% | 41.1% | 48.1% | 124.1% | 84.5% | 59.7% | 124.1% | 41.1% | 77.8% | 75.1% |
| Debt / Assets | 62.5% | 33.6% | 39.4% | 93.8% | 63.7% | 33.4% | 93.8% | 33.6% | 62.5% | 58.6% |
| Assets / Equity | 5.6 | 2.1 | 2.4 | (5.5) | 8.6 | 4.4 | 8.6 | (5.5) | 2.4 | 2.6 |
| Net Fixed Assets / Total Capital | 0.5 | 0.5 | 0.5 | 0.6 | 0.4 | 0.6 | 0.6 | 0.4 | 0.5 | 0.5 |
| Long-Term Debt / Equity | 3.5 | 0.7 | 0.9 | (4.9) | 5.4 | 1.4 | 5.4 | (4.9) | 0.9 | 1.1 |
| **Profitability Ratios** | | | | | | | | | | |
| EBITDA Margin | 13.2% | 18.9% | 12.8% | 19.7% | 12.6% | 4.1% | 19.7% | 12.6% | 13.2% | 15.4% |
| EBIT Margin | 8.7% | 14.4% | 7.8% | 14.9% | 8.0% | 0.3% | 14.9% | 7.8% | 8.7% | 10.7% |
| Net Income Margin | 1.7% | 7.8% | 3.0% | 5.3% | 0.1% | (1.5%) | 7.8% | 0.1% | 3.0% | 3.6% |
| **DuPont Return on Equity** | | | | | | | | | | |
| Net Income Margin | 1.7% | 7.8% | 3.0% | 5.3% | 0.1% | (1.5%) | 7.8% | (1.5%) | 3.0% | 3.6% |
| Asset Turnover | 0.7 | 1.0 | 0.9 | 1.2 | 0.8 | 1.2 | 1.2 | 0.7 | 0.9 | 0.9 |
| Return on Assets | 1.3% | 7.4% | 2.7% | 6.5% | 0.1% | (1.8%) | 7.4% | (1.8%) | 2.7% | 3.6% |
| Assets / Equity | 5.6 | 2.1 | 2.4 | (5.5) | 8.6 | 4.4 | 8.6 | (5.5) | 2.4 | 2.6 |
| Return on Equity | 7.1% | 15.3% | 6.4% | (35.7%) | 0.7% | (8.1%) | 15.3% | (35.7%) | 6.4% | (1.3%) |
| **Capital Expenditures / Revenue** | 5.1% | 1.5% | 5.3% | 5.8% | 4.2% | 1.9% | 5.8% | 1.5% | 5.1% | 4.4% |
| **Price/Earnings (P/E)** | 5.2x | 17.9x | 19.7x | 14.9x | 150.0x | N/A | 150.0x | 5.2x | 17.9x | 41.6x |

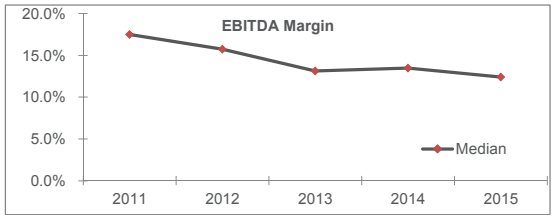
*Notes:*
Source: Capital IQ

**Guideline Company - Historic Revenue Growth and Margin Analysis**

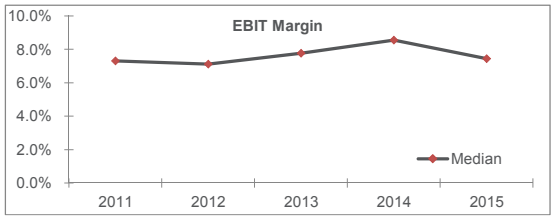
| Revenue Growth | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 7.3% | 7.8% | (0.1%) | 45.4% | 4.3% | 16.5% | 12.9% |
| Universal Health Services Inc. | 38.0% | 3.0% | 5.8% | 11.4% | 10.2% | 9.1% | 13.7% |
| LifePoint Health, Inc. | 7.4% | 12.1% | 8.4% | 21.9% | 16.3% | 15.5% | 13.2% |
| HCA Holdings, Inc. | 5.9% | 11.2% | 3.5% | 8.0% | 7.5% | 6.3% | 7.2% |
| Tenet Healthcare Corp. | 4.7% | 5.4% | 21.6% | 49.8% | 12.2% | 27.9% | 18.7% |
| Low | 4.7% | 3.0% | (0.1%) | 8.0% | 4.3% | 6.3% | 7.2% |
| Median | 7.3% | 7.8% | 5.8% | 21.9% | 10.2% | 15.5% | 13.2% |
| High | 38.0% | 12.1% | 21.6% | 49.8% | 16.3% | 27.9% | 18.7% |
| Mean | 12.6% | 7.9% | 7.9% | 27.3% | 10.1% | 15.1% | 13.2% |




| EBITDA Margin | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 15.1% | 15.2% | 13.1% | 13.5% | 12.3% | 13.0% | 13.8% |
| Universal Health Services Inc. | 17.6% | 18.5% | 18.4% | 18.0% | 18.3% | 18.2% | 18.2% |
| LifePoint Health, Inc. | 17.5% | 15.7% | 12.8% | 12.5% | 12.4% | 12.5% | 14.2% |
| HCA Holdings, Inc. | 19.6% | 19.7% | 19.1% | 20.0% | 19.8% | 19.7% | 19.6% |
| Tenet Healthcare Corp. | 12.9% | 13.2% | 12.0% | 11.7% | 11.7% | 11.8% | 12.3% |
| Low | 12.9% | 13.2% | 12.0% | 11.7% | 11.7% | 11.8% | 12.3% |
| Median | 17.5% | 15.7% | 13.1% | 13.5% | 12.4% | 13.0% | 14.2% |
| High | 19.6% | 19.7% | 19.1% | 20.0% | 19.8% | 19.7% | 19.6% |
| Mean | 16.6% | 16.5% | 15.1% | 15.1% | 14.9% | 15.0% | 15.6% |




| EBIT Margin | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 7.3% | 7.6% | 8.4% | 9.1% | 11.0% | 9.5% | 8.7% |
| Universal Health Services Inc. | 7.2% | 7.1% | 6.4% | 5.7% | 6.8% | 6.3% | 6.7% |
| LifePoint Health, Inc. | 11.3% | 12.0% | 13.1% | 10.4% | 7.4% | 10.3% | 10.9% |
| HCA Holdings, Inc. | 8.9% | 6.9% | 7.8% | 8.6% | 8.0% | 8.1% | 8.0% |
| Tenet Healthcare Corp. | 5.7% | 7.1% | 5.8% | 1.9% | 3.4% | 3.7% | 4.8% |
| Low | 5.7% | 6.9% | 5.8% | 1.9% | 3.4% | 3.7% | 4.8% |
| Median | 7.3% | 7.1% | 7.8% | 8.6% | 7.4% | 8.1% | 8.0% |
| High | 11.3% | 12.0% | 13.1% | 10.4% | 11.0% | 10.3% | 10.9% |
| Mean | 8.1% | 8.1% | 8.3% | 7.1% | 7.3% | 7.6% | 7.8% |

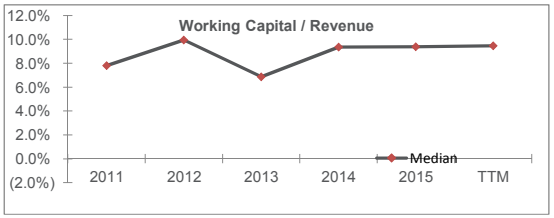



*Source: Capital IQ*

**Guideline Company - Historic Working Capital and Capital Expenditures Analysis**

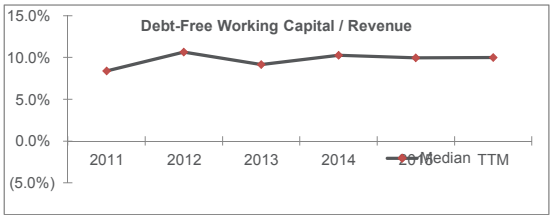
**Working Capital / Revenue**

| | FY 2011 | 2012 | 2013 | 2014 | 2015 | TTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 7.9% | 9.9% | 10.1% | 10.6% | 10.8% | 11.3% | 10.5% | 9.8% |
| Universal Health Services Inc. | 7.8% | 7.4% | 5.1% | 5.3% | 6.8% | (0.5%) | 5.7% | 6.5% |
| LifePoint Health, Inc. | 15.4% | 14.2% | 14.6% | 14.3% | 12.4% | 10.8% | 13.8% | 14.2% |
| HCA Holdings, Inc. | 5.7% | 4.8% | 6.9% | 9.3% | 9.4% | 9.4% | 8.5% | 7.2% |
| Tenet Healthcare Corp. | 6.3% | 10.1% | 5.4% | 2.4% | 4.6% | 4.5% | 4.1% | 5.7% |
| Low | 5.7% | 4.8% | 5.1% | 2.4% | 4.6% | (0.5%) | 4.1% | 5.7% |
| Median | 7.8% | 9.9% | 6.9% | 9.3% | 9.4% | 9.4% | 8.5% | 7.2% |
| High | 15.4% | 14.2% | 14.6% | 14.3% | 12.4% | 11.3% | 13.8% | 14.2% |
| Mean | 8.6% | 9.3% | 8.4% | 8.4% | 8.8% | 7.1% | 8.5% | 8.7% |



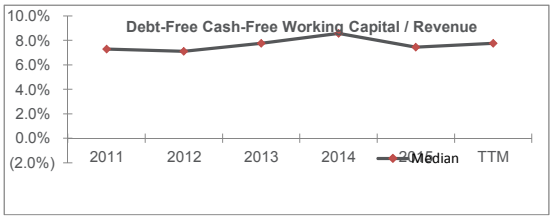

**Debt-Free Working Capital / Revenue**

| | FY 2011 | 2012 | 2013 | 2014 | 2015 | TTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 8.4% | 10.6% | 11.4% | 11.9% | 12.0% | 12.6% | 11.7% | 10.8% |
| Universal Health Services Inc. | 7.8% | 7.4% | 6.7% | 6.1% | 7.5% | 4.7% | 6.8% | 7.1% |
| LifePoint Health, Inc. | 15.5% | 14.6% | 30.5% | 14.7% | 12.9% | 11.3% | 19.4% | 17.6% |
| HCA Holdings, Inc. | 10.4% | 9.2% | 9.2% | 10.3% | 10.0% | 10.0% | 9.8% | 9.8% |
| Tenet Healthcare Corp. | 7.0% | 11.1% | 6.8% | 3.0% | 5.3% | 5.4% | 5.0% | 6.7% |
| Low | 7.0% | 7.4% | 6.7% | 3.0% | 5.3% | 4.7% | 5.0% | 6.7% |
| Median | 8.4% | 10.6% | 9.2% | 10.3% | 10.0% | 10.0% | 9.8% | 9.8% |
| High | 15.5% | 14.6% | 30.5% | 14.7% | 12.9% | 12.6% | 19.4% | 17.6% |
| Mean | 9.8% | 10.6% | 12.9% | 9.2% | 9.5% | 8.8% | 10.5% | 10.4% |




**Debt-Free Cash-Free Working Capital / Revenue**

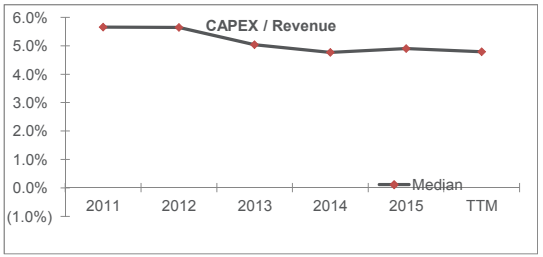
| | FY 2011 | 2012 | 2013 | 2014 | 2015 | TTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 7.3% | 7.6% | 8.4% | 9.1% | 11.0% | 11.6% | 9.5% | 8.7% |
| Universal Health Services Inc. | 7.2% | 7.1% | 6.4% | 5.7% | 6.8% | 4.1% | 6.3% | 6.7% |
| LifePoint Health, Inc. | 11.3% | 12.0% | 13.1% | 10.4% | 7.4% | 7.9% | 10.3% | 10.9% |
| HCA Holdings, Inc. | 8.9% | 6.9% | 7.8% | 8.6% | 8.0% | 7.8% | 8.1% | 8.0% |
| Tenet Healthcare Corp. | 5.7% | 7.1% | 5.8% | 1.9% | 3.4% | 1.6% | 3.7% | 4.8% |
| Low | 5.7% | 6.9% | 5.8% | 1.9% | 3.4% | 1.6% | 3.7% | 4.8% |
| Median | 7.3% | 7.1% | 7.8% | 8.6% | 7.4% | 7.8% | 8.1% | 8.0% |
| High | 11.3% | 12.0% | 13.1% | 10.4% | 11.0% | 11.6% | 10.3% | 10.9% |
| Mean | 8.1% | 8.1% | 8.3% | 7.1% | 7.3% | 6.6% | 7.6% | 7.8% |



**Guideline Company - Historic Working Capital and Capital Expenditures Analysis**

**Capital Expenditures / Revenue**

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | TTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 6.5% | 6.0% | 4.8% | 4.6% | 4.9% | 4.8% | 4.8% | 5.4% |
| Universal Health Services Inc. | 4.7% | 5.6% | 4.9% | 4.8% | 4.2% | 4.3% | 4.6% | 4.8% |
| LifePoint Health, Inc. | 7.3% | 6.5% | 5.0% | 4.6% | 5.3% | 5.2% | 5.0% | 5.7% |
| HCA Holdings, Inc. | 5.7% | 5.6% | 5.7% | 5.9% | 6.0% | 6.1% | 5.9% | 5.8% |
| Tenet Healthcare Corp. | 5.4% | 5.5% | 6.2% | 5.6% | 4.5% | 4.5% | 5.5% | 5.5% |
| Low | 4.7% | 5.5% | 4.8% | 4.6% | 4.2% | 4.3% | 4.6% | 4.8% |
| Median | 5.7% | 5.6% | 5.0% | 4.8% | 4.9% | 4.8% | 5.0% | 5.5% |
| High | 7.3% | 6.5% | 6.2% | 5.9% | 6.0% | 6.1% | 5.9% | 5.8% |
| Mean | 5.9% | 5.9% | 5.3% | 5.1% | 5.0% | 5.0% | 5.1% | 5.4% |

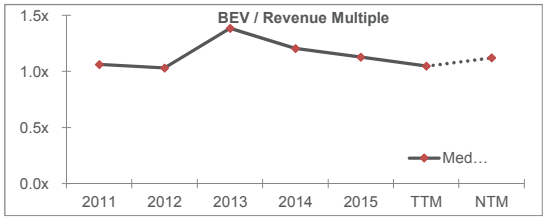



*Source: Capital IQ*

**Guideline Company - Historical Multiple Analysis**

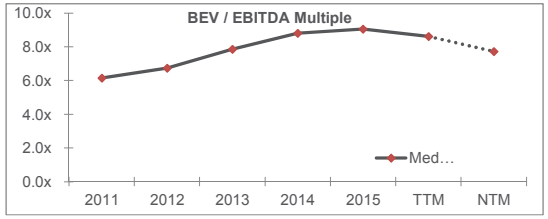
**BEV / Revenue Multiple**

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | TTM | NTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 0.9x | 1.0x | 0.7x | 1.2x | 1.1x | 1.0x | 1.1x | 1.0x | 1.0x |
| Universal Health Services Inc. | 1.1x | 1.3x | 1.6x | 1.8x | 1.7x | 1.7x | 1.5x | 1.7x | 1.5x |
| LifePoint Health, Inc. | 1.1x | 1.0x | 0.5x | 1.2x | 1.1x | 1.0x | 0.9x | 0.9x | 1.0x |
| HCA Holdings, Inc. | 1.3x | 1.3x | 1.5x | 1.7x | 1.5x | 1.6x | 1.5x | 1.6x | 1.5x |
| Tenet Healthcare Corp. | 0.8x | 0.9x | 1.4x | 1.0x | 1.1x | 1.0x | 1.0x | 1.2x | 1.0x |
| Low | 0.8x | 0.9x | 0.5x | 1.0x | 1.1x | 1.0x | 0.9x | 0.9x | 1.0x |
| Median | 1.1x | 1.0x | 1.4x | 1.2x | 1.1x | 1.0x | 1.1x | 1.2x | 1.0x |
| High | 1.3x | 1.3x | 1.6x | 1.8x | 1.7x | 1.7x | 1.5x | 1.7x | 1.5x |
| Mean | 1.0x | 1.1x | 1.1x | 1.4x | 1.3x | 1.3x | 1.2x | 1.3x | 1.2x |



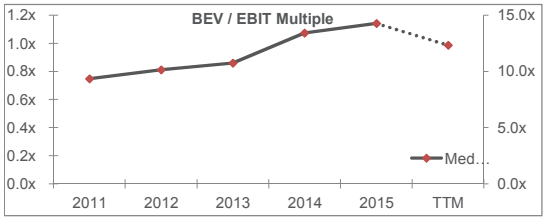

**BEV / EBITDA Multiple**

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | TTM | NTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 6.1x | 6.4x | 5.7x | 8.8x | 8.6x | 8.6x | 7.8x | 7.7x | 7.1x |
| Universal Health Services Inc. | 6.5x | 6.8x | 8.7x | 10.0x | 9.4x | 9.4x | 8.9x | 9.4x | 8.3x |
| LifePoint Health, Inc. | 6.1x | 6.6x | 3.9x | 9.6x | 9.1x | 9.1x | 7.3x | 7.5x | 7.0x |
| HCA Holdings, Inc. | 6.6x | 6.7x | 7.9x | 8.5x | 7.6x | 8.0x | 7.5x | 8.0x | 7.5x |
| Tenet Healthcare Corp. | 6.2x | 7.1x | 11.6x | 8.8x | 9.0x | 8.6x | 7.7x | 9.8x | 8.5x |
| Low | 6.1x | 6.4x | 3.9x | 8.5x | 7.6x | 8.0x | 7.3x | 7.5x | 7.0x |
| Median | 6.2x | 6.7x | 7.9x | 8.8x | 9.0x | 8.6x | 7.7x | 8.0x | 7.5x |
| High | 6.6x | 7.1x | 11.6x | 10.0x | 9.4x | 9.4x | 8.9x | 9.8x | 8.5x |
| Mean | 6.3x | 6.7x | 7.5x | 9.2x | 8.8x | 8.7x | 7.8x | 8.5x | 7.7x |




**BEV / EBIT Multiple**

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | TTM | NTM | 3 FY Avg | 5 FY Avg |
|---|---|---|---|---|---|---|---|---|---|
| Community Health Systems, Inc. | 9.6x | 10.2x | 9.1x | 13.3x | 14.4x | 14.7x | 13.6x | 12.3x | 11.3x |
| Universal Health Services Inc. | 8.6x | 9.0x | 11.5x | 13.4x | 12.4x | 12.3x | 11.5x | 12.5x | 11.0x |
| LifePoint Health, Inc. | 9.3x | 10.9x | 7.3x | 16.7x | 15.2x | 16.1x | 13.1x | 13.0x | 11.9x |
| HCA Holdings, Inc. | 8.8x | 9.1x | 10.7x | 11.3x | 10.0x | 10.5x | 9.8x | 10.7x | 10.0x |
| Tenet Healthcare Corp. | 9.6x | 11.0x | 19.6x | 15.7x | 14.3x | 11.5x | 11.5x | 16.5x | 14.0x |
| Low | 8.6x | 9.0x | 7.3x | 11.3x | 10.0x | 10.5x | 9.8x | 10.7x | 10.0x |
| Median | 9.3x | 10.2x | 10.7x | 13.4x | 14.3x | 12.3x | 11.5x | 12.5x | 11.3x |
| High | 9.6x | 11.0x | 19.6x | 16.7x | 15.2x | 16.1x | 13.6x | 16.5x | 14.0x |
| Mean | 9.2x | 10.0x | 11.7x | 14.1x | 13.3x | 13.1x | 11.9x | 13.0x | 11.6x |




*Source: Capital IQ*

**Guideline Company - Operating Statistics**

| | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. | State of Connecticut, Office of Attorney General | Range for Guideline Companies | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CYH | UHS | LPNT | HCA | THC | ECHN | | | | |
| *Fiscal Year Ending:* | 12/31/2015 | 12/31/2015 | 12/31/2015 | 12/31/2015 | 12/31/2015 | 9/30/2015 | High | Low | Median | Average |
| **Operating Statistics (Last Fiscal Year)** | | | | | | | | | | |
| Number of Hospitals | 194 | 253 | 67 | 284 | 590 | 1 | 590 | 67 | 253 | 278 |
| FTEs | 123,000 | 64,500 | 40,000 | 203,500 | 119,148 | 2,256 | 203,500 | 40,000 | 119,148 | 110,030 |
| Licensed Beds | 29,853 | 27,620 | 8,243 | 43,771 | 22,525 | 401 | 43,771 | 8,243 | 27,620 | 26,402 |
| Admissions | 940,292 | 708,734 | 236,474 | 1,868,800 | - | 10,918 | 1,868,800 | - | 708,734 | 750,860 |
| Adjusted Admissions | 2,038,103 | NA | 617,434 | 3,122,700 | NA | 31,487 | 3,122,700 | 617,434 | 2,038,103 | 1,926,079 |
| ER Visits | NA | NA | 1,477,113 | 8,050,200 | NA | 60,668 | 8,050,200 | 1,477,113 | 4,763,657 | 4,763,657 |
| Patient Days | 4,175,214 | 7,054,125 | NA | 9,155,660 | NA | 50,565 | 9,155,660 | 4,175,214 | 7,054,125 | 6,795,000 |
| Adjusted Patient Days | 9,049,866 | NA | NA | 15,298,790 | NA | 145,829 | 15,298,790 | 9,049,866 | 12,174,328 | 12,174,328 |
| Inpatient Procedures | NA | NA | 65,432 | 529,900 | NA | N/A | 529,900 | 65,432 | 297,666 | 297,666 |
| Outpatient Procedures | NA | NA | 243,820 | 909,400 | NA | N/A | 909,400 | 243,820 | 576,610 | 576,610 |
| Outpatient Adjustment Factor | 2.17 | NA | 2.61 | 1.67 | NA | 2.88 | 2.61 | 1.67 | 2.17 | 2.15 |
| Net Inpatient Revenue | NA | NA | NA | NA | NA | N/A | - | - | NA | NA |
| Net Outpatient Revenue | NA | NA | NA | NA | NA | N/A | - | - | NA | NA |
| Total Net Patient Revenue | $19,234 | $9,043 | $5,214 | 39,678 | - | 316 | 39,678 | - | 9,043 | 14,634 |
| EBITDA | $2,387 | $1,658 | $646 | 7,869 | 2,177 | 12.9 | 7,869 | 646 | 2,177 | 2,947 |
| Payor Mix | | | | | | | | | | |
| Medicare % | 24.1% | 21.0% | 29.1% | 32.2% | 20.4% | | 32.2% | 20.4% | 24.1% | 25.4% |
| Medicaid % | 11.2% | 14.0% | 16.1% | 9.9% | 8.7% | | 16.1% | 8.7% | 11.2% | 12.0% |
| Managed Care % | 52.4% | 52.0% | 53.5% | 58.5% | 70.9% | | 70.9% | 52.0% | 53.5% | 57.5% |
| Uninsured % | 12.3% | 13.0% | 16.6% | 9.3% | 0.0% | | 16.6% | 0.0% | 12.3% | 10.2% |
| Total | 100.0% | 100.0% | 115.3% | 109.9% | 100.0% | | | | | |
| **Operating Ratios** | | | | | | | | | | |
| % Inpatient Revenue | NA | NA | NA | NA | NA | NA | 0.0% | 0.0% | NA | NA |
| % Outpatient Revenue | NA | NA | NA | NA | NA | NA | 0.0% | 0.0% | NA | NA |
| Net Revenue / Bed | $644,290 | $327,424 | $632,573 | $906,491 | $ - | 786,952 | 906,491 | - | 632,573 | 502,156 |
| Net Revenue / Admission | $20,455 | $12,760 | $22,050 | $21,232 | NA | 28,903 | 22,050 | 12,760 | 20,844 | 19,124 |
| Net Revenue / Adjusted Admission | $9,437 | NA | $8,445 | $12,706 | NA | 10,022 | 12,706 | 8,445 | 9,437 | 10,196 |
| Net Revenue / Patient Day | $4,607 | $1,282 | NA | $4,334 | NA | 6,241 | 4,607 | 1,282 | 4,334 | 3,407 |
| Net Revenue / Adjusted Patient Day | $2,125 | NA | NA | $2,594 | NA | 2,164 | 2,594 | 2,125 | 2,359 | 2,359 |
| EBITDA / Bed | $79,958 | $60,029 | $78,370 | $179,777 | $96,648 | 32,047 | 179,777 | 60,029 | 79,958 | 98,956 |
| EBITDA / Admission | $2,539 | $2,339 | $2,732 | $4,211 | NA | 1,177 | 4,211 | 2,339 | 2,635 | 2,955 |
| EBITDA / Adjusted Admission | $1,171 | NA | $1,046 | $2,520 | NA | 408 | 2,520 | 1,046 | 1,171 | 1,579 |
| EBITDA / Patient Day | $572 | $235 | NA | $859 | NA | 254 | 859 | 235 | 572 | 555 |
| EBITDA / Adjusted Patient Day | $264 | NA | NA | $514 | NA | 88 | 514 | 264 | 389 | 389 |
| FTEs / Bed | 4.1 | 2.3 | 4.9 | 4.6 | 5.3 | 5.6 | 5.3 | 2.3 | 4.6 | 4.2 |
| Average Length of Stay (Days) | 4.4 | 10.0 | NA | 4.9 | NA | 4.6 | 10.0 | 4.4 | 4.9 | 6.4 |
| Occupancy Rate | 38.3% | 70.0% | NA | 57.3% | NA | 34.5% | 70.0% | 38.3% | 57.3% | 55.2% |
| Avg. Daily Census (Per Facility) | 59.0 | 76.4 | NA | 88.3 | NA | 138.5 | 88.3 | 59.0 | 76.4 | 74.6 |

Source: CapitalIQ

**Guideline Company - Income Statements**

| | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. | Eastern Connecticut Health Network, Inc. | Common-size: Community Health Systems, Inc. | Common-size: Universal Health Services Inc. | Common-size: LifePoint Health, Inc. | Common-size: HCA Holdings, Inc. | Common-size: Tenet Healthcare Corp. | Common-size: Eastern Connecticut Health Network, Inc. | Range for Guideline Companies | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CYH | UHS | LPNT | HCA | THC | | CYH | UHS | LPNT | HCA | THC | | | |
| *Latest Twelve Months Ending:* | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | Median | Average |
| Total Revenues | $19,557 | $8,765 | $5,107 | $39,065 | $18,085 | $316 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Salaries & Benefits | 8,935 | 4,128 | 2,457 | 17,791 | - | 201 | 45.7% | 47.1% | 48.1% | 45.5% | 0.0% | 63.6% | 45.7% | 37.3% |
| Supplies | 3,038 | 955 | 934 | 6,611 | 11,520 | 100 | 15.5% | 10.9% | 18.3% | 16.9% | 63.7% | 31.6% | 16.9% | 25.1% |
| (1) Cost of Goods Sold | 11,973 | 5,083 | 3,391 | 24,402 | 11,520 | 300 | 61.2% | 58.0% | 66.4% | 62.5% | 63.7% | 95.2% | 62.5% | 62.4% |
| **Gross Profit** | **7,584** | **3,682** | **1,716** | **14,663** | **6,565** | **15** | **38.8%** | **42.0%** | **33.6%** | **37.5%** | **36.3%** | **4.8%** | **37.5%** | **37.6%** |
| Selling, General & Admin. Exp. | 459 | 94 | 53 | - | 264 | - | 2.3% | 1.1% | 1.0% | 0.0% | 1.5% | 0.0% | 1.1% | 1.2% |
| Other Operating Expenses | 4,542 | 1,934 | 1,010 | 6,972 | 4,031 | 2 | 23.2% | 22.1% | 19.8% | 17.8% | 22.3% | 0.7% | 22.1% | 21.0% |
| **EBITDA** | **2,583** | **1,654** | **653** | **7,691** | **2,270** | **13** | **13.2%** | **18.9%** | **12.8%** | **19.7%** | **12.6%** | **4.1%** | **13.2%** | **15.4%** |
| Depreciation & Amortization Expense | 878 | 394 | 256 | 1,883 | 829 | 12 | 4.5% | 4.5% | 5.0% | 4.8% | 4.6% | 3.8% | 4.6% | 4.7% |
| **EBIT** | **1,705** | **1,260** | **396** | **5,808** | **1,441** | **1** | **8.7%** | **14.4%** | **7.8%** | **14.9%** | **8.0%** | **0.3%** | **8.7%** | **10.7%** |
| | | | | | | | 0.0% | | | | | | | |
| Net Interest Income (Expense) | (966) | (116) | (114) | (1,684) | (860) | (3) | (4.9%) | (1.3%) | (2.2%) | (4.3%) | (4.8%) | (1.1%) | (4.3%) | (3.5%) |
| Non-Operating Income | 64 | - | 45 | 49 | 39 | (2) | 0.3% | 0.0% | 0.9% | 0.1% | 0.2% | (0.7%) | 0.2% | 0.3% |
| Non-Recurring Income | (69) | - | (72) | (300) | (402) | - | (0.4%) | 0.0% | (1.4%) | (0.8%) | (2.2%) | 0.0% | (0.8%) | (0.9%) |
| **Pretax Income** | **734** | **1,144** | **256** | **3,873** | **218** | **(5)** | **3.8%** | **13.1%** | **5.0%** | **9.9%** | **1.2%** | **(1.5%)** | **5.0%** | **6.6%** |
| Total Income Taxes | 234 | 394 | 91 | 1,239 | 60 | - | 1.2% | 4.5% | 1.8% | 3.2% | 0.3% | 0.0% | 1.8% | 2.2% |
| Minority Interest Expense | 102 | 70 | 13 | 560 | 139 | | 0.5% | 0.8% | 0.3% | 1.4% | 0.8% | 0.0% | 0.8% | 0.8% |
| **Net Income Before Extraordinaries** | **398** | **680** | **151** | **2,074** | **19** | **(5)** | **2.0%** | **7.8%** | **3.0%** | **5.3%** | **0.1%** | **(1.5%)** | **3.0%** | **3.6%** |
| Extraordinary Items | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Discontinued Operations | (56) | - | - | - | (1) | - | (0.3%) | 0.0% | 0.0% | 0.0% | (0.0%) | 0.0% | 0.0% | (0.1%) |
| **Net Income** | **342** | **680** | **151** | **2,074** | **18** | **(5)** | **1.7%** | **7.8%** | **3.0%** | **5.3%** | **0.1%** | **(1.5%)** | **3.0%** | **3.6%** |
| Extraordinary Items | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Discontinued Operations | (56) | - | - | - | (1) | - | (0.3%) | 0.0% | 0.0% | 0.0% | (0.0%) | 0.0% | 0.0% | (0.1%) |
| Non-Operating Income | 64 | - | 45 | 49 | 39 | (2) | 0.3% | 0.0% | 0.9% | 0.1% | 0.2% | (0.7%) | 0.2% | 0.3% |
| Non-Recurring Income | (69) | - | (72) | (300) | (402) | - | (0.4%) | 0.0% | (1.4%) | (0.8%) | (2.2%) | 0.0% | (0.8%) | (0.9%) |
| Preference Dividend | - | 0 | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Effective Tax Rate | *0* | *0* | *0* | *0* | *0* | | | | | | | | | |
| Related Tax Expense | (2) | - | (10) | (80) | (100) | | (0.0%) | 0.0% | (0.2%) | (0.2%) | (0.6%) | 0.0% | (0.2%) | (0.2%) |
| (2) **Net Income (Adj.)** | **$401** | **$679** | **$169** | **$2,245** | **$282** | **($3)** | **2.1%** | **7.8%** | **3.3%** | **5.7%** | **1.6%** | **(0.8%)** | **3.3%** | **4.1%** |
| Capital Expenditures | $989 | $132 | $270 | $2,265 | $765 | $6 | 5.1% | 1.5% | 5.3% | 5.8% | 4.2% | 1.9% | 5.1% | 4.4% |

*Notes:*

(1) Cost of Goods Sold includes Salaries and Services, Employee Benefits, and Supplies and Drugs

(2) Net Income (Adj.) = Net Income - Extraordinary Ops - Non Op Income - Non Rec Income - Pref Dividend + [Non Operating Income + Non Recurring Income] * (1 - Tax Rate)

EBITDA = Earnings Before Interest, Tax, Depreciation and Amortization

EBIT = Earnings Before Interest and Tax

Source: Capital IQ

**Guideline Company - Balance Sheet**

| | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. | Eastern Connecticut Health Network, Inc. | Community Health Systems, Inc. | Universal Health Services Inc. | LifePoint Health, Inc. | HCA Holdings, Inc. | Tenet Healthcare Corp. | Eastern Connecticut Health Network, Inc. | Range For Guideline Companies | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CYH | UHS | LPNT | HCA | THC | | CYH | UHS | LPNT | HCA | THC | | | |
| *As of:* | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | 9/30/2015 | Median | Average |
| **Assets** | | | | | | | | | | | | | | |
| Cash & Short-Term Investment | $186.0 | $39.5 | $313.2 | $639.0 | $450.0 | $16.3 | 0.7% | 0.4% | 5.6% | 2.0% | 1.9% | 6.2% | 1.9% | 2.1% |
| Accounts Receivable | 3,686.0 | 1,328.3 | 747.7 | 5,827.0 | 2,907.0 | 41.6 | 13.6% | 14.4% | 13.4% | 18.3% | 12.5% | 16.0% | 13.6% | 14.4% |
| Inventory | 572.0 | 112.7 | 123.3 | 1,379.0 | 275.0 | 5.6 | 2.1% | 1.2% | 2.2% | 4.3% | 1.2% | 2.1% | 2.1% | 2.2% |
| Prepaid Expenses | 215.0 | - | 49.3 | - | - | - | 0.8% | 0.0% | 0.9% | 0.0% | 0.0% | 0.0% | 0.0% | 0.3% |
| Deferred Tax Asset, Curr. | 345.0 | 134.6 | 61.9 | 412.0 | 625.0 | - | 1.3% | 1.5% | 1.1% | 1.3% | 2.7% | 0.0% | 1.3% | 1.6% |
| Other Current Assets | 548.0 | 81.5 | 34.7 | 964.0 | 2,039.0 | 11.3 | 2.0% | 0.9% | 0.6% | 3.0% | 8.8% | 4.3% | 2.0% | 3.1% |
| Total Current Assets | 5,552.0 | 1,696.6 | 1,330.1 | 9,221.0 | 6,296.0 | 74.8 | 20.4% | 18.4% | 23.8% | 28.9% | 27.2% | 28.7% | 23.8% | 23.7% |
| Net Property, Plant & Equipment | 10,064.0 | 3,776.1 | 2,437.1 | 14,704.0 | 7,330.0 | 88.3 | 37.0% | 41.0% | 43.5% | 46.1% | 31.6% | 33.9% | 41.0% | 39.9% |
| Long-Term Investments | 487.0 | 9.0 | - | 595.0 | 1,029.0 | 89.0 | 1.8% | 0.1% | 0.0% | 1.9% | 4.4% | 34.1% | 1.8% | 1.6% |
| Goodwill | 8,972.0 | 3,388.4 | 1,667.5 | - | 6,606.0 | - | 33.0% | 36.8% | 29.8% | 0.0% | 28.5% | 0.0% | 29.8% | 25.6% |
| Other Intangibles | 158.0 | - | 72.3 | 6,540.0 | 1,585.0 | - | 0.6% | 0.0% | 1.3% | 20.5% | 6.8% | 0.0% | 1.3% | 5.8% |
| Deferred Charges, Long-Term | - | 35.1 | 27.3 | - | 245.0 | - | 0.0% | 0.4% | 0.5% | 0.0% | 1.1% | 0.0% | 0.4% | 0.4% |
| Deferred Tax Asset, Long-Term | - | - | - | - | 82.0 | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.4% | 0.0% | 0.0% | 0.1% |
| Other Long-Term Assets | 1,956.0 | 301.7 | 64.7 | 836.0 | - | 8.6 | 7.2% | 3.3% | 1.2% | 2.6% | 0.0% | 3.3% | 2.6% | 2.8% |
| Total Long-Term Assets | 21,637.0 | 7,510.3 | 4,268.9 | 22,675.0 | 16,877.0 | 185.8 | 79.6% | 81.6% | 76.2% | 71.1% | 72.8% | 71.3% | 76.2% | 76.3% |
| **Total Assets** | **$27,189.0** | **$9,206.9** | **$5,599.0** | **$31,896.0** | **$23,173.0** | **$260.6** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Liabilities & Shareholder's Equity** | | | | | | | | | | | | | | |
| Accounts Payable | 1,214.0 | 1,102.6 | 166.6 | 1,877.0 | 1,206.0 | 33.4 | 4.5% | 12.0% | 3.0% | 5.9% | 5.2% | 12.8% | 5.2% | 6.1% |
| Accrued Expenses | 1,548.0 | - | 213.3 | 3,059.0 | 1,313.0 | - | 5.7% | 0.0% | 3.8% | 9.6% | 5.7% | 0.0% | 5.7% | 5.0% |
| Current Portion of L-T Debt | 240.0 | 84.9 | 25.1 | 1,377.0 | 112.0 | 7.0 | 0.9% | 0.9% | 0.4% | 4.3% | 0.5% | 2.7% | 0.9% | 1.4% |
| Current Income Taxes Payable | 102.0 | 8.7 | - | - | - | - | 0.4% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% |
| Unearned Revenue, Curr. | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Deferred Tax Liability, Curr. | 23.0 | - | - | - | - | - | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other Current Liabilities | 27.0 | - | 234.7 | - | 1,462.0 | 11.2 | 0.1% | 0.0% | 4.2% | 0.0% | 6.3% | 4.3% | 0.1% | 2.1% |
| Total Current Liabilities | 3,154.0 | 1,196.2 | 639.7 | 6,313.0 | 4,093.0 | 51.7 | 11.6% | 13.0% | 11.4% | 19.8% | 17.7% | 19.8% | 13.0% | 14.7% |
| Long-Term Debt | 16,749.0 | 3,013.0 | 2,181.2 | 28,528.0 | 14,642.0 | 80.1 | 61.6% | 32.7% | 39.0% | 89.4% | 63.2% | 30.7% | 61.6% | 57.2% |
| Capital Leases | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unearned Revenue, Non-Curr. | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Pension & Other Post-Retirement Benefits | - | - | - | - | 621.0 | 62.4 | 0.0% | 0.0% | 0.0% | 0.0% | 2.7% | 23.9% | 0.0% | 0.5% |
| Deferred Tax Liability, Non-Curr. | 847.0 | 264.4 | 173.3 | - | - | - | 3.1% | 2.9% | 3.1% | 0.0% | 0.0% | 0.0% | 2.9% | 1.8% |
| Other Non-Current Liabilities | 1,594.0 | 289.4 | 225.2 | 2,867.0 | 1,117.0 | 7.7 | 5.9% | 3.1% | 4.0% | 9.0% | 4.8% | 2.9% | 4.8% | 5.4% |
| Total Long-Term Liabilities | 19,190.0 | 3,566.8 | 2,579.7 | 31,395.0 | 16,380.0 | 150.2 | 70.6% | 38.7% | 46.1% | 98.4% | 70.7% | 57.6% | 70.6% | 64.9% |
| **Total Liabilities** | **22,344.0** | **4,762.9** | **3,219.4** | **37,708.0** | **20,473.0** | **201.9** | **82.2%** | **51.7%** | **57.5%** | **118.2%** | **88.3%** | **77.5%** | **82.2%** | **79.6%** |
| Minority Interest | 604.0 | 310.8 | 143.9 | 1,482.0 | 1,898.0 | - | 2.2% | 3.4% | 2.6% | 4.6% | 8.2% | 0.0% | 3.4% | 4.2% |
| Preferred Stock (Carrying Value) | - | - | - | - | - | - | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Common Equity | 4,241.0 | 4,133.1 | 2,235.7 | (7,294.0) | 802.0 | - | 15.6% | 44.9% | 39.9% | (22.9%) | 3.5% | 0.0% | 15.6% | 16.2% |
| Total Shareholder's Equity | 4,845.0 | 4,443.9 | 2,379.6 | (5,812.0) | 2,700.0 | 58.7 | 17.8% | 48.3% | 42.5% | (18.2%) | 11.7% | 22.5% | 17.8% | 20.4% |
| **Total Liabilities & Shareholder's Equity** | **$27,189.0** | **$9,206.9** | **$5,599.0** | **$31,896.0** | **$23,173.0** | **$260.6** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: Capital IQ*

**Guideline Company - Descriptions**

| Name | Stock Symbol | Description |
|---|---|---|
| Community Health Systems, Inc. | CYH | Community Health Systems, Inc., together with its subsidiaries, owns, leases, and operates general acute care hospitals in the United States. It offers general acute care, emergency room, general and specialty surgery, critical care, internal medicine, obstetrics, diagnostic, psychiatric, and rehabilitation services, as well as skilled nursing and home care services. The company also provides outpatient services at urgent care centers, occupational medicine clinics, imaging centers, cancer centers, ambulatory surgery centers, and home health and hospice agencies. In addition, it offers management and consulting services to non-affiliated general acute care hospitals. As of February 15, 2016, the company owned, leased, or operated 195 affiliated hospitals in 29 states with approximately 30,000 licensed beds. Community Health Systems, Inc. was founded in 1985 and is headquartered in Franklin, Tennessee. |
| Universal Health Services Inc. | UHS | Universal Health Services, Inc., through its subsidiaries, owns and operates acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers, and radiation oncology centers. The company's hospitals provide various services, including general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services, and/or behavioral health services. As of February 25, 2016, it owned and/or operated 24 inpatient acute care hospitals, 3 free-standing emergency departments, and 213 inpatient and 16 outpatient behavioral health care facilities located in 37 states, Washington, D.C.; the United Kingdom; Puerto Rico; and the U.S. Virgin Islands. Universal Health Services, Inc. was founded in 1978 and is headquartered in King of Prussia, Pennsylvania. |
| LifePoint Health, Inc. | LPNT | LifePoint Health, Inc., through its subsidiaries, owns and operates community hospitals, regional health systems, physician practices, outpatient centers, and post-acute facilities in the United States. Its hospitals offer a range of medical and surgical services, such as general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, rehabilitation, and pediatric services, as well as specialized services, including open-heart surgery, skilled nursing, psychiatric care, and neuro-surgery. The company's hospitals also provide various outpatient services comprising same-day surgery, laboratory, X-ray, respiratory therapy, imaging, sports medicine, and lithotripsy. In addition, it owns and operates schools of nursing and other allied health professions. As of December 31, 2015, the company operated 67 hospitals campuses in 21 states. The company was formerly known as LifePoint Hospitals, Inc. and changed its name to LifePoint Health, Inc. in May 2015. LifePoint Health, Inc. was founded in 1997 and is based in Brentwood, Tennessee. |
| HCA Holdings, Inc. | HCA | HCA Holdings, Inc., through its subsidiaries, provides health care services in the United States. It operates general, acute care hospitals that offer medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic, and emergency services; and outpatient services, such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology, and physical therapy services. The company also operates psychiatric hospitals, which provide therapeutic programs comprising child, adolescent and adult psychiatric care, adult and adolescent alcohol and drug abuse treatment, and counseling. In addition, it operates outpatient health care facilities consisting of freestanding ambulatory surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, rehabilitation and physical therapy centers, radiation and oncology therapy centers, physician practices, and various other facilities. As of December 31, 2015, the company operated 164 general, acute care hospitals with 43,275 licensed beds; 3 psychiatric hospitals with 396 licensed beds; and 1 rehabilitation hospital, as well as 116 freestanding surgery centers. HCA Holdings, Inc. was founded in 1968 and is headquartered in Nashville, Tennessee. |
| Tenet Healthcare Corp. | THC | Tenet Healthcare Corporation, together with its subsidiaries, primarily operates acute care hospitals and related healthcare facilities. The company operates through three segments: Hospital Operations and Other, Ambulatory Care, and Conifer. Its general hospitals offer acute care services, operating and recovery rooms, radiology services, respiratory therapy services, clinical laboratories, and pharmacies. The company also provides intensive, critical, and coronary care units; physical therapy, orthopedic, oncology, and outpatient services; tertiary care services, including open-heart surgery, neonatal intensive care, and neurosciences; quaternary care services for heart, liver, kidney, and bone marrow transplants; quaternary pediatric and burn services; gamma-knife brain surgery; and cyberknife radiation therapy for tumors and lesions in the brain, lung, neck, and spine. In addition, it offers clinical research programs related to cardiovascular and pulmonary diseases, musculoskeletal disorders, neurological disorders, genitourinary diseases, and various cancers, as well as drug and medical device studies. Further, the company operates freestanding ambulatory surgery and imaging centers, short-stay surgical facilities, and Aspen's hospitals and clinics. Additionally, it offers operational management for patient access, accounts receivable management, health information management, revenue integrity, and patient financial services; communications and engagement solutions; and clinical integration, financial risk management, and population health management services. As of December 31, 2015, the company operated 86 hospitals, 20 short-stay surgical hospitals, and approximately 475 outpatient centers; and 9 private hospitals and clinics, as well as 249 ambulatory surgery, 20 imaging, and 35 urgent care centers in the United Kingdom. Tenet Healthcare Corporation was founded in 1967 and is headquartered in Dallas, Texas. |

*Source: Capital IQ*

**Similar Transaction Method Summary**

| | | BEV/ 2015 Revenue | BEV/ 2015 EBITDA |
|---|---|---|---|
| ECHN Financial Metrics (000's) | (1) | 313,562 | 10,846 |
| Selected Market Multiples | (2) | 0.2x | 4.9x |
| Indicated Business Enterprise Value - Marketable, Control Basis | | $62,712 | $53,575 |
| Weighting | (3) | 50.0% | 50.0% |
| Preliminary Business Enterprise Value | | | $58,144 |
| Plus: Joint Venture Interests | (4) | | 13,187 |
| Plus: Real Estate Joint Venture Interests | (5) | | 1,760 |
| **Business Enterprise Value (Rounded)** | | | **$73,091** |

*Notes:*

(1) See Exhibit C-2, Historical Income Statement - ECHN

(2) See Exhibit E-2, Similar Transaction Multiples - Hospitals.

(3) Most weight was given to the EBITDA indication as this metric is most commonly used by buyers and sellers in the hospital M&A market.
BEV = Business Enterprise Value
EBITDA = Earnings Before Interest, Tax, Depreciation, and Amortization

(4) See Exhibit F-4, Joint Venture Analysis.

(5) See Exhibit F-3, Real Property - Summary of Fair Market Values.

**Similar Transaction Multiples - Hospitals**

| | Number | Median Revenue | Median EBITDA | Median EBITDA Margin | Median Revenue Multiple | Median EBITDA Multiple |
|---|---|---|---|---|---|---|
| *All* | | | | | | |
| 2015 | 22 | $53.6 | $0.9 | 2.4% | 0.5x | 8.6x |
| 2014 - 2015 | 41 | $77.3 | $4.3 | 5.9% | 0.5x | 7.2x |
| 2013 - 2015 | 60 | $95.7 | $8.2 | 6.4% | 0.5x | 7.8x |
| 2012 - 2015 | 89 | $97.2 | $7.6 | 5.9% | 0.5x | 8.8x |
| 2011 - 2015 | 138 | $105.1 | $9.5 | 6.4% | 0.6x | 9.1x |
| Hospitals with EBITDA > 20% | 5 | $49.5 | $15.0 | 37.2% | 0.7x | 2.0x |
| Hospitals with EBITDA > 15% and < 20% | 6 | $187.7 | $30.1 | 16.2% | 0.8x | 4.5x |
| Hospitals with EBITDA > 10% and < 15% | 20 | $126.4 | $17.2 | 11.7% | 0.9x | 6.5x |
| Hospitals with EBITDA > 5% and < 10% | 26 | $136.3 | $9.1 | 6.4% | 0.6x | 9.3x |
| Hospitals with EBITDA > 0% and < 5% | 22 | $159.6 | $1.0 | 2.3% | 0.4x | 18.3x |
| Hospital with EBITDA < 0% | 13 | $45.9 | ($2.9) | (4.8%) | 0.3x | N/A |
| Hospitals with Net Revenue > $500 million | 10 | $1,187.8 | $65.3 | 4.9% | 0.8x | 17.1x |
| Hospitals with Net Revenue $400 to $500 million | 3 | $450.6 | $15.4 | 3.4% | 0.6x | 10.4x |
| Hospitals with Net Revenue $300 to $400 million | 3 | $327.4 | $33.0 | 10.5% | 0.2x | 4.2x |
| Hospitals with Net Revenue $200 to $300 million | 16 | $233.9 | $15.8 | 6.8% | 0.6x | 9.6x |
| Hospitals with Net Revenue $100 to $200 million | 30 | $142.7 | $9.1 | 6.5% | 0.6x | 9.2x |
| Hospitals with Net Revenue < $100 million | 59 | $45.3 | $2.8 | 5.7% | 0.5x | 7.2x |
| **Low** | | $3.1 | ($34.0) | -55.2% | 0.0x | 0.2x |
| **25th Percentile** | | $45.9 | $1.8 | 2.1% | 0.3x | 4.9x |
| **Median** | | $105.1 | $9.5 | 6.4% | 0.6x | 9.1x |
| **75th Percentile** | | $204.7 | $17.1 | 11.6% | 0.9x | 13.7x |
| **High** | | $5,846.8 | $702.6 | 38.5% | 9.0x | 52.7x |
| (1) **Selected Multiple** | | | | | 0.2x | 4.9x |

*Notes:*

(1) Selection of multiples was based on comparison of ECHN to other transactions based on risk, size and profitability and consideration of unique factors to ECHN including payor mix and utilization statistics.

BEV = Business Enterprise Value

EBITDA = Earnings Before Interest, Tax, Depreciation, and Amortization

**Similar Transactions - Hospitals**

| Date Announced | | | Target State | Target Status | Transaction Value | Target Revenue | Target EBITDA | Target Beds | Transaction Value[2] / Revenue | Transaction Value[2] / EBITDA | Transaction Value[2] / EBITDA % | Transaction Value[2] / Beds |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10/1/2015 | Meadville Medical Center | Titusville Area Hospital | Pennsylvania | Nonprofit | 8 | 26.2 | (2.5) | 72 | 0.3x | N/A | -9.4% | 0.1x |
| 9/30/2015 | LCMC Health | West Jefferson Medical Center | Louisiana | Nonprofit | 540 | 243.9 | (2.3) | 405 | 2.2x | N/A | -1.0% | 1.3x |
| 9/23/2015 | Nobilis Health Corp. | Freedom Pain Hospital | Arizona | For-profit | 3 | 10.2 | 0.2 | 12 | 0.3x | 14.8x | 2.1% | 0.3x |
| 8/12/2015 | Sympaticare LLC | Summit Park Hospital | New York | Nonprofit | 12 | 73.7 | (4.8) | 74 | 0.2x | N/A | -6.5% | 0.2x |
| 8/3/2015 | Regional Health Network | Clark Memorial Hospital | Indiana | Nonprofit | 80 | 144.0 | 9.5 | 241 | 0.6x | 8.4x | 6.6% | 0.3x |
| 8/1/2015 | Banner Health | Payson Regional Medical Center | Arizona | For-profit | 25 | 51.4 | 19.8 | 39 | 0.5x | 1.3x | 38.5% | 0.6x |
| 7/30/2015 | Carter Validus Mission Critical REIT II | Warm Spring Specialty Hospital of Luling | Texas | For-profit | 10 | 16.2 | 0.9 | 34 | 0.6x | 10.5x | 5.7% | 0.3x |
| 7/24/2015 | Carter Validus Mission Critical REIT II | The Surgical Institute of Reading | Pennsylvania | For-profit | 25 | 24.4 | 5.8 | 15 | 1.0x | 4.3x | 23.8% | 1.7x |
| 6/24/2015 | Larkin Community Hospital | Hollywood Pavilion Hospital | Florida | Nonprofit | 25 | 5.5 | (0.1) | 50 | 4.5x | N/A | -1.1% | 0.5x |
| 6/8/2015 | Adventist Health | Lodi Health | California | Nonprofit | 100 | 168.1 | 4.0 | 182 | 0.6x | 24.7x | 2.4% | 0.5x |
| 6/5/2015 | St. Mary's Health Care System | Ty Cobb Regional Medical Center | Georgia | Nonprofit | 13 | 27.9 | (6.7) | 56 | 0.5x | N/A | -24.1% | 0.2x |
| 5/15/2015 | LifePoint Health | Watertown Regional Medical Center | Wisconsin | Nonprofit | 100 | 97.4 | 11.3 | 95 | 1.0x | 8.8x | 11.6% | 1.1x |
| 5/11/2015 | Nobilis Health Corp. | Victory Healthcare Plano Hospital | Texas | For-profit | 13 | N/A | N/A | 25 | N/A | N/A | N/A | 0.5x |
| 4/20/2015 | Nobilis Health Corp. | Victory Medical Center Houston | Texas | For-profit | 4 | 49.5 | 18.4 | 25 | 0.1x | 0.2x | 37.2% | 0.2x |
| 4/15/2015 | Spectrum Health | Pennock Health Services | Michigan | Nonprofit | 56 | 61.4 | 8.8 | 88 | 0.9x | 6.4x | 14.3% | 0.6x |
| 4/6/2015 | Ventas, Inc. | Ardent Health Services | Tennessee | For-profit | 1,750 | 2,000.0 | N/A | 2,045 | 0.9x | N/A | N/A | 0.9x |
| 3/27/2015 | LifeBridge Health | Carroll Hospital Center | Maryland | Nonprofit | 250 | 220.3 | 25.8 | 193 | 1.1x | 9.7x | 11.7% | 1.3x |
| 3/18/2015 | Benefis Health System | Teton Medical Center | Montana | Nonprofit | 1 | 6.3 | (0.2) | 10 | 0.1x | N/A | -3.8% | 0.1x |
| 3/2/2015 | Prime Healthcare Services | Mercy Suburban Hospital | Pennsylvania | Nonprofit | 30 | 105.9 | (34.0) | N/A | 0.3x | N/A | -32.1% | N/A |
| 1/16/2015 | Griffin-American Healthcare REIT III | Southlake Hospital | Texas | For-profit | 128 | N/A | N/A | 70 | N/A | N/A | N/A | 1.8x |
| 1/9/2015 | TriHealth | McCullough-Hyde Memorial Hospital | Ohio | Nonprofit | 17 | 55.8 | 4.3 | 60 | 0.3x | 3.9x | 7.8% | 0.3x |
| 1/8/2015 | Conemaugh Health System | Nason Hospital | Pennsylvania | Nonprofit | 12 | 30.7 | 0.6 | 44 | 0.4x | 19.5x | 2.0% | 0.3x |
| 12/23/2014 | Florida Hospital Tampa | Bert Fish Medical Center | Florida | Nonprofit | 40 | 95.5 | 5.6 | 112 | 0.4x | 7.2x | 5.9% | 0.4x |
| 12/16/2014 | Center Management Group, LLC | Runnells Specialized Hospital | New Jersey | Nonprofit | 26 | 24.8 | N/A | 44 | 1.0x | N/A | N/A | 0.6x |
| 12/4/2014 | Nueterra and MU Health | Callaway Community Hospital | Missouri | For-profit | 6 | 16.3 | 0.3 | 36 | 0.4x | 17.3x | 2.1% | 0.2x |
| 11/20/2014 | Prime Healthcare Services | Saint Joseph Mercy Port Huron | Michigan | Nonprofit | 20 | 81.0 | 8.3 | 164 | 0.2x | 2.4x | 10.2% | 0.1x |
| 11/6/2014 | UW Health | SwedishAmerican Health System | Illinois | Nonprofit | 255 | 460.3 | 40.2 | 357 | 0.6x | 6.3x | 8.7% | 0.7x |
| 10/31/2014 | HCA | Citrus Memorial Hospital | Florida | Nonprofit | 195 | 179.6 | 5.7 | 198 | 1.1x | 34.3x | 3.2% | 1.0x |
| 10/20/2014 | Prime Healthcare Services | Monroe Hospital | Indiana | Nonprofit | 2 | 41.9 | (23.1) | 132 | 0.0x | N/A | -55.2% | 0.0x |
| 10/6/2014 | University of Virginia Medical Center | Culpeper Regional Hospital | Virginia | For-profit | 50 | 69.3 | 4.0 | 70 | 0.7x | 12.6x | 5.7% | 0.7x |
| 9/9/2014 | RCHP/Billings Clinic joint venture | Community Medical Center | Montana | Nonprofit | 75 | 161.5 | 14.4 | 151 | 0.5x | 5.2x | 8.9% | 0.5x |
| 8/21/2014 | Duke LifePoint Healthcare | Conemaugh Health System | Pennsylvania | Nonprofit | 500 | 516.0 | N/A | 600 | 1.0x | N/A | N/A | 0.8x |
| 8/1/2014 | Duke LifePoint Healthcare | MedWest Haywood | North Carolina | Nonprofit | 36 | 105.5 | 4.0 | 138 | 0.3x | 9.1x | 3.7% | 0.3x |
| 7/1/2014 | CNL Healthcare Properties, Inc. | Houston Orthopedic & Spine Hospital campus | Texas | For-profit | 76 | N/A | N/A | 64 | N/A | N/A | N/A | 1.2x |
| 6/26/2014 | Banner Health | UA Health Network | Arizona | Nonprofit | 446 | 1,613.6 | 97.2 | 1,339 | 0.3x | 4.6x | 6.0% | 0.3x |
| 5/29/2014 | Prospect Medical Holdings, Inc. | East Orange General Hospital | New Jersey | Nonprofit | 84 | N/A | N/A | 212 | N/A | N/A | N/A | 0.4x |
| 5/12/2014 | South Nassau Communities Hospital | Long Beach Medical Center | New York | Nonprofit | 12 | N/A | N/A | 162 | N/A | N/A | N/A | 0.1x |
| 3/24/2014 | Carter Validus Mission Critical REIT II | Cypress Pointe Surgical Hospital | Louisiana | For-profit | 25 | 30.2 | 3.5 | 30 | 0.8x | 7.1x | 11.7% | 0.8x |
| 2/28/2014 | Via Christi Health | Mercy Regional Health Center | Kansas | Nonprofit | 7 | 92.3 | 12.9 | 111 | 0.1x | 0.5x | 13.9% | 0.1x |
| 2/17/2014 | Buyer Consortium | Chindex International, Inc. | Maryland | For-profit | 461 | 170.0 | 15.8 | N/A | 2.7x | 29.3x | 9.3% | N/A |
| 1/8/2014 | Duke LifePoint Healthcare, LLC | Wilson Medical Center | North Carolina | Nonprofit | 96 | 141.4 | 25.1 | 274 | 0.7x | 3.8x | 17.8% | 0.4x |
| 10/31/2013 | Duke LifePoint Healthcare, LLC | WestCare | North Carolina | Non-profit | 43.0 | 96.0 | N/A | 110 | 0.4x | N/A | N/A | 0.4x |
| 10/25/2013 | Rush University Medical Center | Oak Park Hospital | Illinois | Non-profit | 21.1 | 107.5 | 2.3 | 237 | 0.2x | 9.2x | 2.1% | 0.1x |
| 10/22/2013 | Sabra Health Care REIT, Inc. | Forest Park Medical Center | Texas | For-profit | 119.8 | 13.3 | N/A | 54 | 9.0x | N/A | N/A | 2.2x |
| 8/14/2013 | Medical Properties Trust, Inc. | 3 IASIS Healthcare hospitals | Louisiana | For-profit | 283.3 | N/A | N/A | 670 | N/A | N/A | N/A | 0.4x |
| 8/6/2013 | LifePoint Hospitals, Inc. | Portage Health | Michigan | Non-profit | 40.0 | 82.5 | 9.1 | 96 | 0.5x | 4.4x | 11.0% | 0.4x |
| 7/30/2013 | Community Health Systems, Inc. | Health Management Associates, Inc. | Florida | For-profit | 7,600.0 | 5,846.8 | 702.6 | 11,000 | 1.3x | 10.8x | 12.0% | 0.7x |
| 7/18/2013 | HCA West Florida | 3 IASIS Healthcare Hospitals | Tennessee | For-profit | 146.0 | 231.3 | 15.8 | 691 | 0.6x | 9.2x | 6.8% | 0.2x |
| 7/18/2013 | Physicians Realty Trust | El Paso Surgical Center and MOB | Oklahoma | For-profit | 40.0 | 28.1 | N/A | 40 | 1.4x | N/A | N/A | 1.0x |
| 7/18/2013 | HCA West Florida | 3 IASIS Healthcare Hospitals | Tennessee | For-profit | 146.0 | 231.3 | 15.8 | 691 | 0.6x | 9.2x | 6.8% | 0.2x |
| 7/18/2013 | Physicians Realty Trust | El Paso Surgical Center and MOB | Oklahoma | For-profit | 40.0 | 28.1 | N/A | 40 | 1.4x | N/A | N/A | 1.0x |
| 7/16/2013 | University of Southern California | Verdugo Hills Hospital | California | Non-profit | 30.0 | 92.4 | 8.6 | 158 | 0.3x | 3.5x | 9.3% | 0.2x |
| 7/11/2013 | Carolinas HealthCare System | Stanly Health Services | North Carolina | Non-profit | 70.0 | 105.1 | 14.1 | 119 | 0.7x | 5.0x | 13.4% | 0.6x |
| 7/1/2013 | Carter Validus Mission Critical REIT | Physicians Specialty Hospital | Arkansas | For-profit | 22.6 | 94.8 | 1.5 | 20 | 0.2x | 15.1x | 1.6% | 1.1x |
| 6/23/2013 | UPMC Health System | Altoona Regional Health System | Pennsylvania | Non-Profit | 10.0 | 372.7 | 61.0 | 402 | 0.0x | 0.2x | 16.4% | 0.0x |
| 4/19/2013 | Catholic Health Initiatives | St. Luke's Episcopal Health System | Texas | Non-Profit | 1,000.0 | 1,275.7 | 26.5 | 1,098 | 0.8x | 37.7x | 2.1% | 0.9x |
| 3/28/2013 | Prime Healthcare Services | Two Kansas Hospitals | Kansas | Non-Profit | 54.3 | 184.8 | (8.8) | 232 | 0.3x | N/A | -4.8% | 0.2x |
| 3/8/2013 | Carolinas HealthCare System | Cleveland County HealthCare System | North Carolina | Non-Profit | 101.0 | 222.3 | 24.8 | 504 | 0.5x | 4.1x | 11.1% | 0.2x |
| 2/21/2013 | Tenet Healthcare Corporation | Emanuel Medical Center | California | Non-Profit | 5.0 | 211.2 | 12.8 | 354 | 0.0x | 0.4x | 6.1% | 0.0x |
| 1/2/2013 | Prime Healthcare Foundation | Knapp Medical Center | Texas | Non-Profit | 110.0 | 128.6 | 8.2 | 209 | 0.9x | 13.5x | 6.4% | 0.5x |
| 12/13/2012 | Montefiore Medical Center | New York Westchester Square Medical Center | New York | Non-Profit | 14.0 | 75.7 | (2.4) | 140 | 0.2x | N/A | -3.1% | 0.1x |
| 12/10/2012 | Licking Memorial Health Systems | Medical Center of Newark | Ohio | Non-Profit | 26.0 | 18.2 | (0.2) | 20 | 1.4x | N/A | -0.9% | 1.3x |

**Similar Transactions - Hospitals**

| Date Announced | | | Target State | Target Status | Transaction Value | Target Revenue | Target EBITDA | Target Beds | Transaction Value[2] / Revenue | Transaction Value[2] / EBITDA | Transaction Value[2] / EBITDA % | Transaction Value[2] / Beds |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12/5/2012 | University General Health System, Inc. | South Hampton Community Hospital | Texas | For-Profit | 30.0 | 40.0 | 15.0 | 111 | 0.8x | 2.0x | 37.5% | 0.3x |
| 11/29/2012 | Prime Healthcare Services | St. Mary's Hospital | New Jersey | Non-Profit | 25.0 | 166.4 | 1.3 | 279 | 0.2x | 19.2x | 0.8% | 0.1x |
| 11/15/2012 | Medical Facilities Corporation | Arkansas Surgical Hospital | Arkansas | For-Profit | 36.2 | 51.4 | 13.4 | 51 | 0.7x | 2.7x | 26.0% | 0.7x |
| 11/14/2012 | KentuckyOne Health | University of Louisville Hospital | Kentucky | Non-Profit | 543.5 | 450.6 | 10.9 | 345 | 1.2x | 49.8x | 2.4% | 1.6x |
| 11/9/2012 | UNC Health Care System | Caldwell Memorial Hospital | North Carolina | Non-Profit | 39.0 | N/A | N/A | 110 | N/A | N/A | N/A | 0.4x |
| 11/5/2012 | Wise Regional Health System | North Texas Community Hospital | Texas | Non-Profit | 20.0 | N/A | N/A | 21 | N/A | N/A | N/A | 1.0x |
| 10/25/2012 | Health Management Associates, Inc. | Bayfront Medical Center | Florida | Non-Profit | 162.0 | 257.7 | 13.7 | 397 | 0.6x | 11.8x | 5.3% | 0.4x |
| 10/19/2012 | HighMark, Inc. | St. Vincent's Health System | Pennsylvania | Non-Profit | 65.0 | 327.4 | 15.3 | 400 | 0.2x | 4.2x | 4.7% | 0.2x |
| 10/10/2012 | Atlantic Health System | Chilton Hospital | New Jersey | Non-Profit | 43.0 | 166.9 | (2.9) | 260 | 0.3x | N/A | -1.7% | 0.2x |
| 8/27/2012 | Queen's Health Systems | Hawaii Medical Center - West Campus | Hawaii | Non-Profit | 70.0 | N/A | N/A | 102 | N/A | N/A | N/A | 0.7x |
| 7/2/2012 | Cardiovascular Care Group | Bakersfield Heart Hospital | California | For-Profit | 38.1 | N/A | N/A | 47 | N/A | N/A | N/A | 0.8x |
| 7/1/2012 | Temple University Health System | Fox Chase Cancer Center | Pennsylvania | Non-Profit | 83.8 | 236.6 | 36.5 | 100 | 0.4x | 2.3x | 15.4% | 0.8x |
| 6/12/2012 | Highmark, Inc. | Jefferson Regional Medical Center | Pennsylvania | Non-Profit | 275.0 | 204.7 | 22.6 | 376 | 1.3x | 12.2x | 11.0% | 0.7x |
| 6/1/2012 | Lawrence & Memorial Hospital | Westerly Hospital | Rhode Island | Non-Profit | 69.0 | 90.6 | 5.8 | 101 | 0.8x | 12.0x | 6.4% | 0.7x |
| 5/3/2012 | McLaren Health Care | Cheboygan Memorial Hospital | Michigan | Non-Profit | 5.0 | 45.9 | (7.4) | 91 | 0.1x | N/A | -16.1% | 0.1x |
| 5/1/2012 | MultiCare Health System | Auburn Regional Medical Center | Washington | For-Profit | 98.0 | 135.2 | 17.0 | 159 | 0.7x | 5.8x | 12.6% | 0.6x |
| 4/4/2012 | Steward Health Care System | New England Sinai Hospital | Massachusetts | For-Profit | 37.0 | 74.3 | N/A | 212 | 0.5x | N/A | N/A | 0.2x |
| 4/3/2012 | Sacred Heart Health System, Inc. | Bay Medical Center | Florida | Non-Profit | 154.0 | 258.4 | 9.5 | 323 | 0.6x | 16.2x | 3.7% | 0.5x |
| 3/27/2012 | Hudson Hospital Holdco, Inc. | Christ Hospital | New Jersey | Non-Profit | 43.5 | 125.1 | 1.4 | 227 | 0.3x | 31.1x | 1.1% | 0.2x |
| 3/20/2012 | Cape Fear Valley Health System | Bladen County Hospital | North Carolina | Non-Profit | 0.0 | 18.3 | N/A | 25 | 0.0x | N/A | N/A | 0.0x |
| 3/9/2012 | Tift Regional Medical Center | Memorial Hospital and Convalescent Center | Georgia | For-Profit | 8.3 | N/A | N/A | 155 | N/A | N/A | N/A | 0.1x |
| 3/6/2012 | Duke LifePoint Healthcare, LLC | Marquette General Health System | Michigan | Non-Profit | 147.0 | 244.2 | 15.6 | 307 | 0.6x | 9.4x | 6.4% | 0.5x |
| 3/1/2012 | Mayo Clinic Health System | Satilla Health Services | Georgia | Non-Profit | 51.0 | 152.8 | 4.2 | 231 | 0.3x | 12.1x | 2.7% | 0.2x |
| 2/28/2012 | Huntsville Hospital | Decatur General Hospital | Alabama | For-Profit | 25.0 | 113.5 | 5.9 | 242 | 0.2x | 4.2x | 5.2% | 0.1x |
| 2/8/2012 | Cookeville Regional Medical Center | Cumberland River Hospital | Tennessee | For-Profit | 6.8 | 11.1 | N/A | 36 | 0.6x | N/A | N/A | 0.2x |
| 2/3/2012 | Health Management Associates, Inc. | Integris Health joint venture | Oklahoma | Non-Profit | 60.0 | 96.5 | 1.8 | 226 | 0.6x | 34.2x | 1.8% | 0.3x |
| 1/24/2012 | Community Health Systems, Inc. | Memorial Health Systems | Pennsylvania | Non-Profit | 45.0 | 97.0 | 7.1 | 100 | 0.5x | 6.3x | 7.3% | 0.5x |
| 12/19/2011 | Huntsville Hospital | Parkway Medical Center | Alabama | For-Profit | 37.8 | 45.3 | N/A | 109 | 0.8x | N/A | N/A | 0.3x |
| 12/15/2011 | Cone Health | Alamance Regional Medical Center | North Carolina | Non-Profit | 200.0 | 213.9 | 23.6 | 218 | 0.9x | 8.5x | 11.0% | 0.9x |
| 12/12/2011 | Community Health Systems, Inc. | MetroSouth Medical Center | Illinois | For-Profit | 70.5 | 151.6 | N/A | 244 | 0.5x | N/A | N/A | 0.3x |
| 12/7/2011 | Essentia Health | Virginia Regional Medical Center | Minnesota | Non-Profit | 27.0 | 50.7 | N/A | 164 | 0.5x | N/A | N/A | 0.2x |
| 11/30/2011 | Prime Healthcare Services | Harlingen Medical Center | North Carolina | For-Profit | 9.0 | N/A | N/A | 112 | N/A | N/A | N/A | 0.1x |
| 11/29/2011 | Orlando Health | Health Central | Florida | For-Profit | 177.0 | 131.0 | 15.5 | 177 | 1.4x | 11.4x | 11.8% | 1.0x |
| 11/29/2011 | UC Health | The Drake Center | Ohio | For-Profit | 15.0 | 57.5 | N/A | 166 | 0.3x | N/A | N/A | 0.1x |
| 11/1/2011 | Baptist Health System | Leake Memorial Hospital | Mississippi | Non-Profit | 2.8 | 11.7 | N/A | 25 | 0.2x | N/A | N/A | 0.1x |
| 10/27/2011 | Duke LifePoint Healthcare, LLC | Twin County Regional Hospital | Virginia | Non-Profit | 30.0 | 44.0 | N/A | 86 | 0.7x | N/A | N/A | 0.3x |
| 10/20/2011 | New Directions Health Systems, LLC | Cleveland Regional Medical Center | Texas | For-Profit | 0.9 | 57.3 | N/A | 107 | 0.0x | N/A | N/A | 0.0x |
| 10/3/2011 | Cardiovascular Care Group | Louisiana Medical Center and Heart Hospital, LLC | Louisiana | For-Profit | 23.0 | 50.4 | N/A | 137 | 0.5x | N/A | N/A | 0.2x |
| 9/29/2011 | LHP Hospital Group, Inc. | Bay Medical Center | Florida | Non-Profit | 155.0 | 258.4 | 9.5 | 323 | 0.6x | 16.3x | 3.7% | 0.5x |
| 9/6/2011 | Trinity Health | Mercy Hospital & Medical Center | Illinois | Non-Profit | 150.0 | 251.4 | 15.3 | 449 | 0.6x | 9.8x | 6.1% | 0.3x |
| 9/1/2011 | Mercy | Logan Medical Center | Oklahoma | Non-Profit | 7.2 | 22.3 | 1.0 | 25 | 0.3x | 7.2x | 4.5% | 0.3x |
| 8/26/2011 | Kingman Regional Medical Center | Hualapai Mountain Medical Center | Arizona | For-Profit | 42.0 | N/A | N/A | 70 | N/A | N/A | N/A | 0.6x |
| 7/28/2011 | Community Health Systems, Inc. | Tomball Regional Medical Center | Texas | Non-Profit | 225.4 | 151.0 | 17.6 | 358 | 1.5x | 12.8x | 11.7% | 0.6x |
| 7/25/2011 | Duke LifePoint Healthcare, LLC | Maria Parham Medical Center | North Carolina | For-Profit | 57.9 | 97.8 | 11.9 | 102 | 0.6x | 4.9x | 12.2% | 0.6x |
| 7/19/2011 | Community Health Systems, Inc. | Moses Taylor Health Care System | Pennsylvania | Non-Profit | 172.4 | 148.8 | 9.5 | 242 | 1.2x | 18.1x | 6.4% | 0.7x |
| 7/1/2011 | Health Management Associates, Inc. | Mercy Health Partners, Inc. | Tennessee | Non-Profit | 532.4 | 600.0 | 22.8 | 833 | 0.9x | 23.4x | 3.8% | 0.6x |
| 6/28/2011 | Ardent Health Services | Southcrest Hospital, Claremore Regional | Oklahoma | For-Profit | 154.2 | 187.7 | 30.1 | 269 | 0.8x | 5.1x | 16.0% | 0.6x |
| 6/28/2011 | Steward Health Care System | Quincy Medical Center | Massachusetts | Non-Profit | 79.0 | 78.1 | 1.5 | 196 | 1.0x | 52.7x | 1.9% | 0.4x |
| 6/28/2011 | Ardent Health Services | Southcrest Hospital, Claremore Regional | Oklahoma | For-Profit | 154.2 | 187.7 | 30.1 | 269 | 0.8x | 5.1x | 16.0% | 0.6x |
| 6/25/2011 | Highmark, Inc. | West Penn Allegheny Health System | Pennsylvania | Non-Profit | 1,475.0 | 1,600.0 | 33.3 | 2,000 | 0.9x | 44.3x | 2.1% | 0.7x |
| 6/22/2011 | Capella Healthcare | Cannon County Hospital, LLC | Tennessee | For-Profit | 27.7 | N/A | N/A | 112 | N/A | N/A | N/A | 0.2x |
| 6/15/2011 | HCA, Inc. | Remaining interest in HealthONE | Colorado | For-Profit | 1,450.0 | N/A | 193.0 | 1,500 | N/A | 7.5x | N/A | 1.0x |
| 6/7/2011 | Steward Health Care System | Landmark Medical Center | Rhode Island | Non-Profit | 76.6 | N/A | N/A | 203 | N/A | N/A | N/A | 0.4x |
| 6/3/2011 | Duke LifePoint Healthcare, LLC | Person Memorial Hospital | North Carolina | For-Profit | 22.7 | 41.6 | 2.1 | 102 | 0.5x | 10.8x | 5.0% | 0.2x |
| 5/25/2011 | University of Maryland Medical System | Civista Health System | Maryland | Non-Profit | 16.5 | 103.8 | N/A | 130 | 0.2x | N/A | N/A | 0.1x |
| 5/18/2011 | LifeCare Holdings, Inc. | Five long-term acute care hospitals | Alabama | For-Profit | 117.5 | 121.7 | 17.5 | 355 | 1.0x | 6.7x | 14.4% | 0.3x |
| 5/13/2011 | South Georgia Medical Center | Smith Northview Hospital | Georgia | For-Profit | 40.0 | 50.2 | 2.8 | 45 | 0.8x | 14.3x | 5.6% | 0.9x |
| 5/10/2011 | Franciscan Services Corp. | Twin City Hospital | Ohio | Non-Profit | 4.9 | 15.5 | N/A | 25 | 0.3x | N/A | N/A | 0.2x |
| 5/9/2011 | Ardent Health Services | Heart Hospital of New Mexico | New Mexico | For-Profit | 119.0 | 80.8 | 15.4 | 55 | 1.5x | 7.7x | 19.1% | 2.2x |
| 5/9/2011 | AR-MED, LLC | Arkansas Heart Hospital | Arkansas | For-Profit | 65.0 | 117.5 | 17.4 | 112 | 0.6x | 3.7x | 14.8% | 0.6x |
| 4/27/2011 | Ascension Health | Alexian Brothers Health System | Illinois | Non-Profit | 645.0 | 952.6 | 101.9 | 752 | 0.7x | 6.3x | 10.7% | 0.9x |
| 4/25/2011 | HUMC Holdco, LLC | Hoboken University Medical Center | New Jersey | Non-Profit | 91.7 | 115.3 | N/A | 230 | 0.8x | N/A | N/A | 0.4x |
| 4/20/2011 | Health Management Associates, Inc. | Tri-Lakes Medical Center | Mississippi | For-Profit | 38.8 | 30.3 | N/A | 112 | 1.3x | N/A | N/A | 0.3x |

**Similar Transactions - Hospitals**

| Date Announced | | | Target State | Target Status | Transaction Value | Target Revenue | Target EBITDA | Target Beds | Transaction Value[2] / Revenue | Transaction Value[2] / EBITDA | Transaction Value[2] / EBITDA % | Transaction Value[2] / Beds |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4/18/2011 | Adventist Health | Sierra Kings District Hospital | California | Non-Profit | 24.8 | 22.1 | N/A | 44 | 1.1x | N/A | N/A | 0.6x |
| 4/1/2011 | One Cura Wellness, Inc. | Two Oklahoma hospitals | Oklahoma | For-Profit | 12.0 | 12.8 | N/A | 50 | 0.9x | N/A | N/A | 0.2x |
| 3/31/2011 | Steward Health Care System | Morton Hospital and Medical Center | Massachusetts | Non-Profit | 178.5 | 127.3 | 8.6 | 153 | 1.4x | 20.8x | 6.8% | 1.2x |
| 3/31/2011 | Sabra Health Care REIT | Texas Regional Medical Center | Texas | For-Profit | 62.7 | N/A | N/A | 70 | N/A | N/A | N/A | 0.9x |
| 3/25/2011 | Yale-New Haven Hospital | Hospital of Saint Raphael | Connecticut | Non-Profit | 160.0 | 450.3 | 15.4 | 511 | 0.4x | 10.4x | 3.4% | 0.3x |
| 3/22/2011 | LHP Hospital Group, Inc. | St. Mary's Hospital | Connecticut | Non-Profit | 200.0 | 201.4 | 17.1 | 175 | 1.0x | 11.7x | 8.5% | 1.1x |
| 3/18/2011 | Iasis Healthcare, LLC | St. Joseph Medical Center | Texas | Non-Profit | 156.8 | 245.0 | N/A | 792 | 0.6x | N/A | N/A | 0.2x |
| 3/11/2011 | Carle Foundation Hospital | Hoopeston Regional Health Center | Illinois | For-Profit | 12.4 | 20.4 | 1.4 | 25 | 0.6x | 8.9x | 6.9% | 0.5x |
| 3/7/2011 | Trinity Health | Loyola University Health System | Illinois | Non-Profit | 475.0 | 1,100.0 | N/A | 820 | 0.4x | N/A | N/A | 0.6x |
| 2/16/2011 | Vanguard Health Systems, Inc. | Valley Baptist Health System | Texas | Non-Profit | 201.4 | 527.0 | N/A | 866 | 0.4x | N/A | N/A | 0.2x |
| 2/10/2011 | Community Health Systems, Inc. | Mercy Health Partners | Pennsylvania | Non-Profit | 161.0 | 183.9 | N/A | 313 | 0.9x | N/A | N/A | 0.5x |
| 2/1/2011 | UPMC Health System | Hamot Medical Center | Pennsylvania | Non-Profit | 300.0 | 315.2 | 33.0 | 351 | 1.0x | 9.1x | 10.5% | 0.9x |
| 1/17/2011 | Sisters of Mercy Health System | Johnston Memorial Hospital | Oklahoma | For-Profit | 1.6 | 3.1 | N/A | 25 | 0.5x | N/A | N/A | 0.1x |

*Source: Irving Levin Associates Transaction Database*

## Asset-Based Approach - Summary

| Supplemental Asset-Based Approach (1) | Notes | FMV |
|---|---|---|
| Net Asset Components: | | |
| Personal Property | (2) | $23,600,000 |
| Real Property | (3) | 42,170,000 |
| Real Property Joint Ventures Interests | (3) | 1,760,000 |
| Joint Ventures Interests | (4) | 13,187,000 |
| Net Working Capital | (5) | 21,130,000 |
| **FMV of ECHN Business Enterprise, Value-in-Place** | (6) | **$101,847,000** |

*Notes:*

(1) Navigant performed a supplemental asset-based valuation analysis to further support our overall assessment that PMH was not paying less than fair market value for ECHN's assets.

(2) Based on Navigant analysis. See Exhibit F-2, Personal Property - Summary of Fair Market Values.

(3) Based on Navigant analysis. See Exhibit F-3, Real Property - Summary of Fair Market Values.

(4) See Exhibit F-4, Joint Venture Analysis.

(5) Net working capital adjustment is based on the projected balance of net working capital as of the latest Net Proceeds Analysis provided by Management.

(6) Based on Navigant's analysis, it was determined that any intangible asset value would be negligible given the financial condition of the Health System.

**Personal Property - Summary of Fair Market Values**

| *USD $ (Actuals)* | Asset Category | Historical Cost | Net Book Value | Fair Market Value (Rounded) |
|---|---|---|---|---|
| | **Manchester Memorial Hospital** | | | |
| | Capital Leases | $14,732,808 | $6,971,978 | $5,888,000 |
| | Computer Equipment | 8,332,096 | 894,420 | 548,000 |
| | Computer Software | 8,950,752 | 536,358 | 1,077,000 |
| | Furniture & Fixtures | 11,782,571 | 1,556,382 | 2,637,000 |
| | Lab Equipment | 3,329,207 | 416,725 | 821,000 |
| | Leasehold Improvements | 1,256,314 | 846,610 | 562,000 |
| | Medical Equipment | 37,856,537 | 8,452,940 | 9,061,000 |
| | Vehicles | 215,832 | 21,969 | 63,000 |
| | Machinery & Equipment | 651,598 | 600,690 | 419,000 |
| | **Manchester Memorial Hospital Total** | **$87,107,716** | **$20,298,072** | **$21,076,000** |
| | **Rockville General Hospital** | | | |
| | Computer Equipment | $2,443,805 | $230,745 | $148,000 |
| | Computer Software | 3,281,066 | 238,980 | 364,000 |
| | Furniture & Fixtures | 3,567,218 | 374,846 | 740,000 |
| | Lab Equipment | 1,356,464 | 200,025 | 318,000 |
| | Leasehold Improvements | 949,902 | 712,771 | 485,000 |
| | Medical Equipment | 19,472,825 | 2,559,354 | 4,000,000 |
| | Vehicles | 103,543 | 1,680 | 21,000 |
| | Machinery & Equipment | 58,701 | 1,760 | 3,000 |
| | **Rockville General Hospital Total** | **$31,233,523** | **$4,320,161** | **$6,079,000** |
| | **South Windsor Primary Care** | | | |
| | Computer Equipment | $384,836 | $78,493 | $41,000 |
| | Computer Software | 930,764 | 110,901 | 170,000 |
| | Furniture & Fixtures | 706,475 | 311,200 | 230,000 |
| | Lab Equipment | 16,801 | 1,654 | 3,000 |
| | Leasehold Improvements | 1,161,706 | 674,023 | 483,000 |
| | Medical Equipment | 983,827 | 433,094 | 359,000 |
| | **South Windsor Primary Care Total** | **$4,184,409** | **$1,609,365** | **$1,286,000** |
| | **Other** | | | |
| | Woodlake at Tolland | $2,178,099 | $638,657 | $512,000 |
| | Enterprise | 13,500 | - | 4,000 |
| | **Other Total** | **$13,500** | **$ -** | **$516,000** |
| | Construction In Progress | $1,495,545 | $1,495,545 | **$1,500,000** |
| **Personal Property Total** | | **$124,034,693** | **$27,723,142** | **$30,457,000** |
| **Personal Property Total** | | **$124,000,000** | **$27,700,000** | **$30,500,000** |
| **Capital Lease Liability (As of December 31, 2015)** | | | | (6,840,359) |
| **Personal Property Total (Excluding Capital Lease Liability (As of December 31, 2015))** | | | | **$23,600,000** |

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit F-3**

NAVIGANT

**FINAL**

**Real Property - Summary of Fair Market Values**

**PROPERTY BY PROPERTY SUMMARY OF VALUE CONCLUSIONS**

Wholly Owned

| Address | City | Property Type | Size | Cost Approach (1) Land, Site and Bldg | Market Approach (2) Low | Market Approach (2) High | Fair Market Value |
|---|---|---|---|---|---|---|---|
| 71-80 Haynes Street (MMH) | Manchester | Hospital and parking | 527,224 | $ 20,600,000 | $15,800,000 | $27,400,000 | $ 20,600,000 |
| 31 Union St (RGH) | Vernon | Hospital | 177,348 | $ 3,800,000 | $ 1,600,000 | $ 5,300,000 | $ 3,800,000 |
| 460 Hartford Turnpike | Vernon | Medical/Dialysis/Sterlizing | 36,000 | $ 3,700,000 | $ 3,600,000 | $ 4,500,000 | $ 3,700,000 |
| 26 Shenipsit Lake Road (WA | Tolland | Elder Care | 65,721 | $ 8,100,000 | $ 7,600,000 | $ 9,900,000 | $ 8,100,000 |
| **Total of Major Properties** | | | | | | | $ 36,200,000 |

| Additional MMH properties (3) | | | | Basic Price |
|---|---|---|---|---|
| 18 Haynes Street | Manchester | Office Building/Commercial | 6,061 | $ 770,000 |
| 26 Haynes Street | Manchester | Office Building/Commercial | 4,256 | $ 500,000 |
| 36 Haynes Street | Manchester | Office Building/Commercial | 7,068 | $ 780,000 |
| 44 Haynes Street | Manchester | Office Building/Commercial | 1,523 | $ 160,000 |
| 310-312 Main Street | Manchester | Office Building/Commercial | 3,954 | $ 320,000 |
| 320 Main Street | Manchester | Office Building/Commercial | 10,640 | $ 770,000 |
| 353 Main Street | Manchester | Office Building/Commercial | 5,348 | $ 700,000 |
| 150 North Main Street | Manchester | Medical Office Building | 20,656 | $ 1,890,000 |
| 945 Main St (2 condos) | Manchester | Office Building/Condos | 2,330 | $ 180,000 |
| 319 Broad Street | Manchester | Thrift/retail store | 6,236 | $ 620,000 |
| W Middle Tpke; Russell; | Manchester | 12 SFR residential properties | 15,233 | $ 1,320,000 |
| Hemlock; Hawthorne; Alton | Manchester | 5 Vacant Residential parcels | 11.57 acres total | $ 440,000 |
| 56 Haynes Street | Manchester | Vacant commecial parcel | 0.31 acres | $ 40,000 |
| **Additional RGH properties (3)** | | | | |
| Ward, Village and W Main | Vernon | Vacant parcels | 1.37 acres | $ 410,000 |

| | | |
|---|---|---|
| Aggregate retal of non-essential real estate | $ 8,900,000 | |
| Non essential real estate - sold as a portfolio - and sold off over time Discounted for sell off over three years | Net Proceeds - non-essential real estate | $ 5,970,000 |
| **Total Fair Market Value of Real Estate Assets** | | **$ 42,170,000** |

JV - Partially Owned

| Address | City | Property Type | Size | Costs (4) | Ownership | Fair Market Value | Less Debt | FMV Equity |
|---|---|---|---|---|---|---|---|---|
| 100 Haynes Street | Manchester | Cancer Center Medical Building | 30,443 | $ 8,813,100 | 15.0% | $ 1,321,965 | $ 943,349 | $ 378,616 |
| 29 Haynes Street | Manchester | Medical office building | 11,241 | 2,237,900 | 22.9% | 512,479 | 377,004 | 135,475 |
| 2800 Tamarack Avenue | South Windsor | Medical office building | 40,000 | 5,933,700 | 20.0% | 1,186,740 | 910,617 | 276,123 |
| 2400 + 2600 Tamarack Aven | South Windsor | Medical office building | 52,615 | 12,966,400 | 20.0% | 2,593,280 | 1,622,431 | 970,849 |
| **Total Fair Market Value of Real Estate Assets** | | | | $ 29,951,100 | | $ 5,614,464 | $ 3,853,401 | $ 1,761,063 |
| | | | | | | | Rounded | **$ 1,760,000** |

*Notes:*
(1) See Exhibits G-1, G-2, G-3, G-4 and G-5
(2) See Exhibit G-6, G-7 and G-8
(3) See Exhibit G-9 and G-10
(4) See Exhibit G-11, G-12 and G-13.

**Joint Venture Analysis**

| Company Name (1), (2) | Business Description | % Ownership | ECHN Net Income 2014 | ECHN Net Income 2015 | ECHN EBITDA 2014 | ECHN EBITDA 2015 | Multiple (3) | Indicated BEV |
|---|---|---|---|---|---|---|---|---|
| Metro Wheelchair Service, Inc. | Ambulance | 50.0% | ($54,225) | $4,180 | ($54,462) | $4,180 | 5.0x | $20,900 |
| Aetna Ambulance Service, Inc. | Ambulance | 50.0% | 188,996 | (80,067) | 495,936 | 128,329 | 5.0x | 641,643 |
| Ambulance Service of Manchester, LLC | Ambulance | 50.0% | 1,026,411 | 1,341,175 | 1,355,963 | 1,637,379 | 5.0x | 8,186,893 |
| WBC Connecticut East, LLC | Behavioral Health Center | 16.0% | (1,455) | 21,473 | 10,366 | 29,840 | 5.0x | 149,198 |
| Evergreen Endoscopy Center, Inc. | Endoscopy Surgery Center | 50.0% | 491,891 | 204,933 | 565,547 | 271,273 | 5.0x | 1,356,363 |
| Tolland Imaging Center, LLC | Imaging Center | 70.0% | 179,810 | 291,458 | 238,046 | 322,674 | 4.5x | 1,452,033 |
| Northeast Regional Radiation Oncology Network, Inc. | Cancer Center | 50.0% | 381,743 | (26,016) | 506,689 | 306,609 | 4.5x | 1,379,741 |
| | **Totals:** | | **$2,213,171** | **$1,757,136** | **$3,118,085** | **$2,700,282** | | **$13,186,770** |
| | **Rounded:** | | | | | | | **$13,187,000** |

*Notes:*

(1) Data on joint venture interests and profitability were provided by Management. Investments are accounted for under equity method accounting. EBITDA values represent ECHN's share of EBITDA in affiliates as of 9/30/2015.

(2) Joint ventures represented are exclusive of ECHN's real estate joint ventures, summarized in Exhibit F-3.

(3) Selection of multiples based on consideration of guideline company and comparable transaction data in each JV's respective industry, according to data from the Irving Levin Transaction Database and Capital IQ. Multiples adjusted based on differences in risk, diversification, and marketability.

**Land Sales - Commercial land**

**SUMMARY OF COMPARABLE VACANT LAND SALES**

| No. | Date | Address | Parcel ID | Land (Acres) | Land (SF) | Price | Price/Acre | Price/SF | Zoning | Proposed Use |
|---|---|---|---|---|---|---|---|---|---|---|
| L-1 | 6/30/2013 | 200 Deming St<br>South Windsor | SWIN-002760-000200 | 4.62 | 201,247 | $2,000,000 | $432,900 | $9.94 | AA30 | Senior Apts |
| L-2 | 12/19/2012 | 444 Center St<br>Manchester | MANC-000102-000000-000444 | 1.89 | 82,328 | $410,000 | $216,931 | $4.98 | B2 | Commercial |
| L-3 | 8/6/2014 | 594 Tolland Tpke<br>Manchester | MANC-000549-000000-000594 | 6.00 | 261,360 | $450,000 | $75,000 | $1.72 | RR | MultiFamily |
| L-4 | 5/15/2015 | 41 Courtney Dr<br>Ellington | ELLI-002012-000004 | 2.05 | 89,298 | $120,000 | $58,537 | $1.34 | Industrial | Commercial |
| L-5 | Listing | 77-113 Spencer St<br>Manchester | MANC-000519-000000-000089 | 7.00 | 304,920 | $1,750,000 | $250,000 | $5.74 | GC | Commercial |
| L-6 | Pending | 797 John Fitch Blvd<br>South Windsor | SWIN-004770-000797 | 2.35 | 102,366 | $495,000 | $210,638 | $4.84 | GC | Commercial |
| L-7 | Listing | 40-48 Merrow Rd<br>Tolland | TOLL-000022M-000000-000102 | 14.00 | 609,840 | $2,900,000 | $207,143 | $4.76 | GDD | Commercial |
| Subject | | 71 Haynes Street | MANC-000279-00000-000071 | 12.54 | 546,242 | | | | | |
| Major properties | | 80 Haynes Street | MANC-000279-00000-000080 | 2.86 | 124,582 | | | | | |
| | | 31 Union Street | 146 23-0105-00001 | 7.95 | 346,302 | | | | | |
| | | 460 Hartford Turnpike | VERN-000019-000016-0000018 | 3.29 | 143,312 | | | | | |
| | | 26 Shenipsit Lake Road | | 6.39 | 278,348 | | | | | |

L-1: A recent sale of commercial land purchased for medical office development, rural area but near freeway access.
L-2: Across Highway 36, existing property has 135,000 sf building to be demolished at the buyer's expense included in the purchare price.
L-3: Within a residential area, wooded, elongated, proposed multi-family development, on the market 1,372 days
L-4: Inferior flag lot, indicates the lower end of the range in the market.
L-5: Listed by Drubner Commercial for 1,370 days. Site is close to general commercial.
L-6: Level wooded lot, about 2 acres developable, on US Route 5, commuter route.
L-7: 26 acres gross, 14 acres net, near a four-way interchange  New EnglandThroughway. Good visibility from I-84 and Rt. 195. (12 acres swamp area)

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit G-2**

NAVIGANT
FINAL

**Land Sales Adjustment - MMH and RGH Hospitals, WAT**

**MAJOR PROPERTIES - LAND SALES ADJUSTMENT GRID**

| DESCRIPTION | Subject | Comparable L-1 | Comparable L-2 | Comparable L-3 | Comparable L-4 | Comparable L-5 | Comparable L-6 | Comparable L- |
|---|---|---|---|---|---|---|---|---|
| LOCATION: | 71 Haynes St Manchester, CT | 200 Deming St South Windsor | 444 Center St Manchester | 594 Tolland Tpke Manchester | 41 Courtney Dr Ellington | 77-113 Spencer St Manchester | 797 John Fitch Blvd South Windsor | 40-48 Merrow Rd Tolland |
| LAND AREA - ACRES | 12.54 | 4.62 | 1.89 | 6.00 | 2.05 | 7.00 | 2.35 | 14.00 |
| | 1,684,465 | 201,247 | 82,328 | 261,360 | 89,298 | 304,920 | 102,366 | 609,840 |
| SHAPE/TOPOGRAPH | Level / Irregular | Level / Irregular | Level / Rectangular | Level / Rectangular | Level / Rectangular | Level / Rectangular | Level / Rectangula | evel / Rectangula |
| ZONING: | | AA30 | B2 | RR | Industrial | GC | GC | GDD |
| SOURCE: | Assessor | CoStar | CoStar | CoStar | CoStar | CoStar | CoStar | CoStar |
| DATE OF SALE: | | Jun-2013 | Dec-2012 | Aug-2014 | May-2015 | Listing | Pending | Listing |
| SALE PRICE: | | $2,000,000 | $410,000 | $450,000 | $120,000 | $1,750,000 | $495,000 | $2,900,000 |
| PRICE PER ACRE: | | $432,900 | $216,931 | $75,000 | $58,537 | $250,000 | $210,638 | $207,143 |
| **ADJUSTMENTS:** | | | | | | | | |
| UNIT SALE PRICE: | | $432,900 | $216,931 | $75,000 | $58,537 | $250,000 | $210,638 | $207,143 |
| PROPERTY RIGHTS CONVEYED: | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ADJUSTED UNIT SALE PRICE: | | $432,900 | $216,931 | $75,000 | $58,537 | $250,000 | $210,638 | $207,143 |
| FINANCIAL CONSIDERATIONS: | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ADJUSTED UNIT SALE PRICE: | | $432,900 | $216,931 | $75,000 | $58,537 | $250,000 | $210,638 | $207,143 |
| CONDITIONS OF SALE: | | 0.00% | 0.00% | 0.00% | 0.00% | -20.00% | 0.00% | -20.00% |
| ADJUSTED UNIT SALE PRICE: | | $432,900 | $216,931 | $75,000 | $58,537 | $200,000 | $210,638 | $165,714 |
| MARKET CONDITIONS: | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TIME ADJUSTED UNIT SALE PRICE: | | $432,900 | $216,931 | $75,000 | $58,537 | $200,000 | $210,638 | $165,714 |
| **PHYSICAL ADJUSTMENTS:** | | | | | | | | |
| LOCATION: | | -40.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| SIZE: | | -20.00% | -30.00% | 0.00% | -30.00% | 0.00% | -30.00% | 0.00% |
| SHAPE/TOPOGRAPHY: | | 0.00% | 0.00% | 50.00% | 50.00% | 0.00% | 0.00% | 0.00% |
| CORNER: | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ZONING/PROPOSED USE: | | 0.00% | 0.00% | 0.00% | 25.00% | 0.00% | 0.00% | 0.00% |
| TOTAL PHYSICAL ADJUSTMENTS: | | -60.00% | -30.00% | 50.00% | 45.00% | 0.00% | -30.00% | 0.00% |
| ADJUSTED UNIT PRICE | | $173,160 | $151,852 | $112,500 | $84,878 | $200,000 | $147,447 | $165,714 |

| | | | |
|---|---|---|---|
| RANGE OF VALUE PER ACRE and AVERAGE | $84,878 | to | $200,000 $147,936 |
| RANGE OF VALUE PER ACRE and AVERAGE - excluding extremes | $112,500 | to | $173,160 $150,135 |

| INDICATED PRICE PER ACRE | Acres | Price per Acre | | | |
|---|---|---|---|---|---|
| 71 and 80 Haynes St | 15.40 | $120,000 | $1,848,000 | Rounded: | $1,800,000 |
| 31 Union Street | 7.95 | $150,000 | $1,192,500 | Rounded: | $1,200,000 |
| 460 Hartford Turnpik | 3.29 | $150,000 | $493,500 | Rounded: | $500,000 |
| 26 Shenipsit Lake Rc | 6.39 | $120,000 | $766,800 | Rounded: | $800,000 |

Notes:

Conditions of Sale: The listings are adjusted downward to probably contract closing price. Typically we see a 20% discount off of the listing price.

Location: L-1 is considered a superior commercial location and adjusted downward. No other location adjustments were considered necessary.

Size: L-1, L-2, L-4 and L-6 are smaller sites. We see a diminution is price per acre for larger size parcels, due to diminishing marginal return. Smaller site typically see an increasing price per acre as each acre is more critical. These smaller site sales are adjusted downward.

Shape and Topograph L-5 is a flag lot, reflecting inferior frontage and visibility; while L-4 is a elongated parcel. Both require upwards adjustments for inferior configurations.

Zoning: Most of the zoning and proposed uses are considered comparable with no quantitative distinction in this market. However, L-5 is an industrial use, requiring an upward adjustment.

Conclusion: The adjusted sales, excluding the extremes, indicate a range from commercial land in the immediate area to be generally $110,000 per acre to $180,000 per acre. The MMH and RGH sites would be expected to fall to the mid range; however, MMH is a very large site, requiring a lower price per acre to account for the larger size. The Woodlake at Tolland site is more rural and would fall to the lower end of the range.

**Building Improvements - MMH and RGH Hospitals, WAT**

**MAJOR PROPERTIES - SUMMARY OF BUILDING IMPROVEMENT COSTS**

| | | | | | | Multipliers | | | Depreciation | | | | | Depreciated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Manchester Memorial Hospital** | | | | | | | | | Economic | Effective | RUL | Depr | Depr | Replacement |
| Cost/Unit | Hard Cost | Extras | Soft Costs | Profit | Adj. Cost | Current | Local | Adj. Cost | Life (Yrs) | Age (Yrs) | (Yrs) | (%) | ($) | Cost |
| General Hospital - Main | | 527,224 SF | | | | | | | | | | | | |
| $244.01 | $128,649,879 | $1,078,358 | $15,567,388 | $0 | $145,295,625 | 1.01 | 1.21 | $177,565,783 | 45 | 25 | 20 | 56% | $98,647,657 | $78,920,000 |
| Basement | | 62,763 SF | | | | | | | | | | | | |
| $112.57 | $7,065,231 | $0 | $847,828 | $0 | $7,913,059 | 1.03 | 1.21 | $9,862,045 | 45 | 25 | 20 | 56% | $5,478,914 | $4,380,000 |
| Parking Garage | | 196,004 SF | | | | | | | | | | | | |
| $51.75 | $10,143,207 | $0 | $1,217,185 | $0 | $11,360,392 | 1.03 | 1.21 | $14,158,456 | 40 | 35 | 5 | 88% | $12,388,649 | $1,770,000 |
| | | | | | | | | | | | | | | $85,070,000 |
| | | | | | | | | | | Less | | | | |
| | | | | | | | | | | | Needed Repairs | | | -$4,945,000 |
| | | | | | | | | | | | Functional Obsolescence | | 30.00% | -$25,521,000 |
| | | | | | | | | | | | External Obsolescence | | 43.00% | -$36,580,100 |
| | | | | | | | | | | Total Depreciated Replacement Costs | | | | **$18,023,900** |
| **Rockville General Hospital** | | | | | | | | | | | | | | |
| General Hospital - Main | | 149,419 SF | | | | | | | | | | | | |
| $257.49 | $38,474,436 | $727,226 | $4,704,200 | $0 | $43,905,862 | 1.01 | 1.21 | $53,657,354 | 45 | 28 | 17 | 62% | $33,386,798 | $20,270,000 |
| Maxwell - Mansion -office | | 27,929 SF | | | | | | | | | | | | |
| $96.70 | $2,700,683 | $0 | $324,082 | $0 | $3,024,765 | 1.01 | 1.22 | $3,727,115 | 40 | 35 | 5 | 88% | $3,261,226 | $470,000 |
| | | | | | | | | | | | | | | $20,740,000 |
| | | | | | | | | | | Less: | Needed Repairs | | | -$3,324,000 |
| | | | | | | | | | | | Functional Obsolescence | | 30.00% | -$6,222,000 |
| | | | | | | | | | | | External Obsolescence | | 43.00% | -$8,918,200 |
| | | | | | | | | | | Total Depreciated Replacement Costs | | | | **$2,275,800** |
| **460 Hartford Turnpike** | | | | | | | | | | | | | | |
| MOB, Dialysis | | 18,000 SF | | | | | | | | | | | | |
| $137.61 | $2,476,980 | $0 | $297,238 | $0 | $2,774,218 | 1.01 | 1.22 | $3,418,391 | 35 | 16 | 19 | 46% | $1,562,693 | $1,860,000 |
| MOB - Basement level | | 18,000 SF | | | | | | | | | | | | |
| $88.94 | $1,600,920 | $0 | $192,110 | $0 | $1,793,030 | 1.01 | 1.22 | $2,209,372 | 35 | 16 | 19 | 46% | $1,009,999 | $1,200,000 |
| | | | | | | | | | | Total Depreciated Replacement Costs | | | | **$3,060,000** |
| **Woodlake at Tolland** | | | | | | | | | | | | | | |
| Skilled Nursing | | 65,721 SF | | | | | | | | | | | | |
| $139.62 | $9,175,966 | $0 | $1,101,116 | $0 | $10,277,082 | 1.03 | 1.23 | $13,020,035 | 40 | 15 | 25 | 38% | $4,882,513 | $8,140,000 |
| | | | | | | | | | | Less: | Needed Repairs | | | -$1,111,000 |
| | | | | | | | | | | Total Depreciated Replacement Costs | | | | **$7,029,000** |
| | | | | | | | | | | | For MMH, RGH, WAT and 460 | | | |
| | | | | | | | | | | | Total Depreciated Building Improvements | | | $30,388,700 |

**Building Improvements - MMH and RGH Hospitals, WAT**

**MAJOR PROPERTIES - SUMMARY OF BUILDING IMPROVEMENT COSTS - Continued**

Footnotes:

Building size, excludes porches and canopies.

MMH - Hospital - Hard Cost per Unit is from *Marshall Valuation Service* February 2016 edition, Section 15, pg 24. MMH -Class B Average; Section 14, pg 34 - Parking Structure - Class C Average. The base cost of $275.10 per square foot is adjusted by perimeter multiplier of .887. Extras account for porches, canopies and non-finished area accounting for the difference between the gross building area and the living area and basement, 17,677 square feet. The Cost per square foot is based on 1/4 of the base costs for living area.

RGH - Hospital - Hard Cost per Unit is from *Marshall Valuation Service* February 2016 edition, Section 15, pg 24. -Class B Average ($275.10 per square foot); and the wood frame original mansion is used for offices, Section 15, pg 17 - Class D Average ($103,31 per square foot). This is adjusted by a perimeter multiplier of 0.936. The Extras account for porches, canopies and non-finished area accounting for the difference between the gross building area and the living area, 11,297 square feet. The Cost per square foot is based on 1/4 of the base costs for living

460 Hartford - Hard Cost per Unit is from *Marshall Valuation Service* February 2016 edition, Section 15, pg 22. -Class C Average for ground floor, and Finished Basement costs for lower level housing sterilizing operation.

WAT - Hard Cost per Unit is from *Marshall Valuation Service* February 2016 edition, Section 15, pg 26. -Class C Average

Soft costs at 12% and profit is not considered realizable in this market.

Multipliers from *MVS*, Section 99, p.745 for Current and p.749 Hartford, CT - the closest metro area.

Economic life from *MVS*, Section 97, pgs 10 & 13, and effective age is based on inspection, discussions with client, and overall age of the improvements in light of past maintenance and upgrades.

Current conditions indicate the hospital improvements are over 50% depreciated from brand new construction. However, other elements influence the various forms of depreciation. Functional obsolescence is considered in light of the current facility configuration and how it meets the demands of the marketplace. There are curable and incurable functional obsolescence. Curable functional obsolescence can be estimated based upon a schedule of immediate repairs to upgrade to desired function. he required upgrade to address identified function obsolescence is based on Facility Assessment by CharterCARE. The functional obsolescence is also based upon the change in the marketplace to command single occupancy/private rooms. The cost to cure the functional obsolescence and convert to adequate single rooms at MMH is $51 million. It must re recognized that in applying the cost to cure for functional obsolescence, this would mitigate the physical depreciation influence, as the repairing of the facility would extend the useful life to some extent. Therefore, the offsetting consequences of an improved physical plant is recognized, reducing the functional obsolescence to half the cost to cure or 30% of physically depreciated cost. External obsolescence is applied in the cost approach to recognize the deficient in the utilization of the assets based upon outside external and economic forces that are impacting the value of these real estate assets. We can quantify this diminution by comparing the anticipated occupancy levels of the licensed beds with the recent actual occupancy levels of the licensed beds. The difference in actual occupancy of 34.5% versus standard occupancy of 60% indicates an external obsolescence of 43%

**Site Improvements - MMH and RGH Hospitals, WAT**

| | | | | | | | Multipliers | | | Depreciation | | | | | Depreciated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Manchester Memorial Hospital** | | | | | | | | | | Economic | Effective | RUL | Physical | Physical | Replacement |
| Item | Units | Cost/Unit | Hard Cost | Costs | Profit | Adj. Cost | Current | Local | Adj. Cost | Life (Yrs) | (Yrs) | (Yrs) | % | ($) | Cost |
| Landscaping | 54,624 | $2.96 | $161,688 | $19,403 | $0 | $181,093 | 1.01 | 1.23 | $224,972 | 20 | 5 | 15 | 25% | $56,243 | $170,000 |
| Surface Parking | 536 | $1,251 | $670,670 | $80,480 | $0 | $752,402 | 1.01 | 1.23 | $934,709 | 8 | 4 | 4 | 50% | $467,354 | $470,000 |
| Canopies, retaining walls, curbs and sidewalks | | | | | | | | | | | | | | | $100,000 |
| | | | | | | | | | | | | | | | $740,000 |
| **Rockville General Hospital** | | | | | | | | | | | | | | | |
| Landscaping | 34,630 | $2.96 | $102,505 | $12,301 | $0 | $114,809 | 1.03 | 1.23 | $145,452 | 20 | 10 | 10 | 50% | $72,726 | $70,000 |
| Parking | 166 | $1,251 | $207,708 | $24,925 | $0 | $233,884 | 1.03 | 1.23 | $296,307 | 8 | 4 | 4 | 50% | $148,154 | $150,000 |
| Canopies, retaining walls, curbs and sidewalks | | | | | | | | | | | | | | | $100,000 |
| | | | | | | | | | | | | | | | $320,000 |
| **460 Hartford** | | | | | | | | | | | | | | | |
| Landscaping | 14,331 | $2.96 | $42,420 | $5,090 | $0 | $47,514 | 1.03 | 1.23 | $60,195 | 20 | 10 | 10 | 50% | $30,098 | $30,000 |
| Parking | 50 | $1,251 | $62,563 | $7,508 | $0 | $71,321 | 1.03 | 1.23 | $90,357 | 8 | 4 | 4 | 50% | $45,178 | $50,000 |
| Canopies, retaining walls, curbs and sidewalks | | | | | | | | | | | | | | | $100,000 |
| | | | | | | | | | | | | | | | $180,000 |
| **Woodlake and Tolland** | | | | | | | | | | | | | | | |
| Landscaping | 27,835 | $2.96 | $82,391 | $9,887 | $0 | $92,281 | 1.03 | 1.23 | $116,911 | 20 | 10 | 10 | 50% | $58,455 | $60,000 |
| Parking | 120 | $1,251 | $150,150 | $18,018 | $0 | $169,419 | 1.03 | 1.23 | $214,637 | 8 | 4 | 4 | 50% | $107,319 | $110,000 |
| Canopies, retaining walls, curbs and sidewalks | | | | | | | | | | | | | | | $100,000 |
| | | | | | | | | | | | | | | | $270,000 |

MMH, RGH, 460 and WAT
Total Depreciated Site Improvements (rounded) $1,330,000

Footnotes:
Hard Cost per Unit is from *MVS*, February 2016 edition, Section 66, pg. 3; multipliers from Site Improvements section.
Parking based on per space cost and spaces from Google Earth, Landscaping based on cost per sq. ft. applied to an estimated 1/10 of the site area.
Soft costs @ 12% and profit @ 0%
Economic life from *MVS*, Section 97, pgs 18-19 and effective age is based on discussions with client, and capital improvements.

**Cost Approach Summary - MMH and RGH Hospitals, WAT**

**MAJOR PROPERTIES - SUMMARY OF COST VALUATION CONCLUSIONS**

| Address | City | Property Type | Size | Land Value (1) | Site Imps (2) | Bldg Imps (3) | Fair Market Value |
|---|---|---|---|---|---|---|---|
| 71-80 Haynes Street (MMH) | Manchester | Hospital | 527,224 | $ 1,800,000 | $ 740,000 | $ 18,023,900 | $ 20,563,900 |
| | | | | | | Rounded | $ 20,600,000 |
| 31 Union St (RGH) | Vernon | Hospital | 177,348 | $ 1,200,000 | $ 320,000 | $ 2,275,800 | $ 3,795,800 |
| | | | | | | Rounded | $ 3,800,000 |
| 460 Hartford Turnpike | Vernon | Medical/Dialysis/Sterilizi | 36,000 | $ 500,000 | $ 180,000 | $ 3,060,000 | $ 3,740,000 |
| | | | | | | Rounded | $ 3,700,000 |
| 26 Shenipsit Lake Road (WAT) | Tolland | Elder Care/ Skilled Nurs | 65,721 | $ 800,000 | $ 270,000 | $ 7,029,000 | $ 8,099,000 |
| | | | | | | Rounded | $ 8,100,000 |

**Improved Hospital Sales - Occupied - Hospital**

**SUMMARY OF OCCUPIED HOSPITAL**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Licensed Bed | Land Acres | Sale Price | $/SF | Per lic Bed | Uses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1/27/2016 | 2701 Dekalb Pike | Norristown | PA | 1993 | 372,820 | 131 | 4.15 | $ 11,000,000 | $ 30 | $ 83,969 | Requires a $30 million upgrade |
| 2 | 8/28/2014 | 116 Eddie Dowling Hwy | North Smithfield | RI | 1970 | 92,944 | 82 | 4.30 | 10,056,200 | $ 108 | $122,637 | Rehabilitation Hospital of Rhode Island to Carter Validus Mission |
| 3 | 8/14/2013 | 156 West Ave | Brockport | NY | 1970 | 279,140 | 191 | 18.90 | 2,500,000 | $ 9 | $ 13,089 | Lakeside Hospital has gone out of business for financial reasons |
| 4 | 1/1/2016 | 1135 Carthage St | Sanford | NC | 1981 | 176,528 | 137 | 17.53 | 14,500,000 | $ 82 | $105,839 | Central Carolina Hospital |
| 5 | 12/24/2013 | 115 Cass Ave | Woonsocket | RI | 1925 | 220,182 | 214 | 13.95 | 14,099,430 | $ 64 | $ 65,885 | Court appointed sale of hospital |
| 6 | 1/3/2013 | 800 Washington St | Norwood | MA | 1920 | 147,121 | 292 | 9.33 | 2,169,595 | $ 15 | $ 7,430 | Norwood Hospital |
| | MMH | | | | | 527,224 | 283 | 15.40 | | | | |
| | RGH | | | | | 177,348 | 118 | 7.95 | | | | |
| | | Range of Operational Hospitals | | | | | | | Low | $ 9 | $ 7,430 | |
| | | | | | | | | | Median | $ 51 | $ 66,475 | |
| | | | | | | | | | High | $ 108 | $122,637 | |

The sales noted above are from a search of sales of occupied or recently occupied hospital property with purchase prices reported on real estate only. These sales reflect a similar highest and best use. The MMH facilities is one of the largest hospital facilities, larger than the comparables sales. Due to economies of scale and diminishing marginal returns, the per square foot price would be expected to be reduced by that impact and reside on the lower end of the range. The largest properties above show a cost per square foot of $9, $30 and $64. RGH represents a more typical size for a hospital facility; however the mansion area of the building area is not considered to have significant value due to it age and deteriorating condition. Overall, the configuration and location of this facility reduce the marketability. The blended rate per square foot for the modern hospital and mansion building would be at the lowest end of the range.

The concluded cost approach for MMH, at $20 million indicates $39 per square foot, $73,000 per licensed be and $120,000 per staffed bed. For RGH the cost approach conclusion of $3.8 million indicates just over $21 per square foot, $32,000 per licensed bed and $81,000 per staffed bed. Due to the larger size of MMH, while the price per square foot is at the lower end the price per bed is over the median for the sales above. RGH is at the lower end for both price per square foot and price per licensed bed, but is supported by the lower sales.

| Indicated Values | | Indicated Range | | Low/ High |
|---|---|---|---|---|
| MMH | 527,224 | Low: | $30 | $15,800,000 |
| | | High: | $52 | $27,400,000 |
| RGH | 177,348 | Low: | $9 | $1,600,000 |
| | | High: | $30 | $5,300,000 |

**Improved Nursing Facilities Sales - WAT**

**SUMMARY OF SKILLED NURSING SALES**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Beds | Land Acres | Sale Price | $/SF | $/Bed | Uses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 7/1/2015 | 7 Loring Hills Ave | Salem | MA | 1993 | 52,444 | 123 | 2.00 | $ 10,080,000 | $ 192 | $ 81,951 | Grosvener Park Nursing home |
| 2 | 5/21/2014 | 2041 NC 210 N | Lillington | NC | 1992 | 35,878 | 105 | 4.00 | 8,208,293 | 229 | 78,174 | Green Leaf Care Center, Skilled Nursing |
| 3 | 9/9/2013 | 111 Huntoon Memorial Hwy | Rochdale | MA | 1994 | 57,195 | 179 | 4.38 | 5,856,375 | 102 | 32,717 | Rehab/Skilled Nursing, Kindred to Wellflower |
| 4 | 12/29/2014 | 3015 W 29th St | Brooklyn | NY | 1992 | 174,788 | 360 | 1.43 | 32,000,000 | 183 | 88,889 | Seagate Rehab and Nursing Center |
| 5 | 5/24/2013 | 45 N Scott St | Carbondale | PA | 1995 | 32,700 | 81 | 3.79 | 5,600,000 | 171 | 69,136 | Osprey Ridge Rehab and Skilled Nursing |
| 6 | 11/25/2013 | 20 N Woodbury Turnersville F | Blackwood | NJ | 1996 | 226,000 | 450 | 25.00 | 37,070,000 | 164 | 82,378 | Skilled and Psychiatric/Auction by Marcus & Millichap |
| 6 | Listing | 46 Maple Street | Kent | CT | 1993 | 60,000 | 90 | 11.50 | 6,000,000 | 100 | 66,667 | The Kent skilled nursing facility |
| 7 | 3/18/2015 | 90 West St | Wilmington | MA | 1993 | 58,574 | 142 | 15.64 | 4,500,000 | 77 | 31,690 | Woodbriar of Wilmington, Rehab, Skilled Nursing |

| | | $/SF | $/Bed |
|---|---|---|---|
| Range of Skilled Nursing Facilities | Low | $ 77 | $ 31,690 |
| | Average | $ 152 | $ 66,450 |
| | High | $ 229 | $ 88,889 |

The sales noted above are from a search of sales of occupied, established skilled nursing property. These sales are reported to represent only transactions of real estate. Personal property and business value are not included. Considering the attributes of each and those of the subject property, it is reasonable to conclude a range of value within the lower mid range, the quadrant below the average.

| Indicated Values | Built | Size (SF) | Beds | Indicated Range | $/SF | $/Bed | |
|---|---|---|---|---|---|---|---|
| Woodlake at Tolland | 1992 | 65,721 | 130 | Low | $ 115 | $ 50,000 | $ 7,600,000 |
| | | | | High | $ 150 | $ 66,000 | $ 9,900,000 |

**State of Connecticut, Office of Attorney General** **Exhibit G-8**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

NAVIGANT
**FINAL**

**Improved MOB Sales - Dialysis buildings**

**SUMMARY OF DIALYSIS and MOB SALES**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Land Acres | Sale Price | $/SF | Uses |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 3/25/2014 | 4802 Broadway | Gary | IN | 1992 | 13,540 | 0.30 | $ 2,550,000 | $188.33 | Dialysis |
| 2 | 12/19/2013 | 109 Overland Dr | Greenwood | SC | 1998 | 12,069 | 2.01 | 2,470,000 | 204.66 | Dialysis |
| 3 | 11/7/2014 | 3310 Dustin Rd | Oregon | OH | 1994 | 8,400 | 2.31 | 1,998,000 | 237.86 | Dialysis |
| 4 | 9/8/2014 | 6757 Main St | Cass City | MI | 1999 | 7,822 | 1.20 | 1,237,425 | 158.20 | Dialysis |
| 5 | 1/21/2016 | 175 Dwight Rd | Longmeadow | MA | 1989 | 28,715 | 1.83 | 4,045,000 | 140.87 | Office |
| 6 | 5/19/2015 | 999 Silver Ln | Trumbull | CT | 2002 | 27,980 | 2.03 | 4,534,750 | 162.07 | MOB |
| 7 | 12/27/2012 | 1075 Tolland Tpke | Manchester | CT | 1965 | 9,753 | 1.11 | 700,000 | 71.77 | MOB |

Similar MOB dialysis centers with DaVita

| | |
|---|---|
| Low | $ 71.77 |
| Average | $166.25 |
| High | $237.86 |

The subject property at 460 Hartford Turnpike, Vernon includes a DaVita Dialysis center on the top ground floor; and in addition, the lower portion of the building is operating a sterilization plant. The lower floor is more service commercial oriented, below street grade with no street frontage. In determining a FMV for the whole, a blended rate of medical and service uses is considered appropriate. Therefore the lower half of the range would be appropriate as an indication of fair market value

| Indicated Values | | | | | Indicated Range | | |
|---|---|---|---|---|---|---|---|
| | | | | SF | | | |
| | 460 Hartford Turnpike | Vernon | Renov 1999 | 36,000 | Low | $100 | $3,600,000 |
| | | | | | High | $125 | $4,500,000 |

**Minor Properties - Assessor's Values/Recent Purchases**

**MINOR PROPERTIES - SUMMARY OF VALUATION CONCLUSIONS**

| Address | City | Property Type | Size | Assessors FMV | Per SF | Recent Appraisal | Date | Recent Purchase | Date | Indicated Value Rounded |
|---|---|---|---|---|---|---|---|---|---|---|
| 18 Haynes Street | Manchester | Office Building/Commercial | 6,061 | $ 767,500 | $ 127 | $ 725,000 | 2012 | | | $ 770,000 |
| 26 Haynes Street | Manchester | Office Building/Commercial | 4,256 | $ 498,300 | $ 117 | | | | | $ 500,000 |
| 36 Haynes Street | Manchester | Office Building/Commercial | 7,068 | $ 762,800 | $ 108 | | | $ 775,000 | 2013 | $ 780,000 |
| 44 Haynes Street | Manchester | Office Building/Commercial | 1,523 | $ 162,000 | $ 106 | | | $ 220,000 | 2006 | $ 160,000 |
| 310-312 Main Street | Manchester | Office Building/Commercial | 3,954 | $ 316,000 | $ 80 | | | $ 299,990 | 2005 | $ 320,000 |
| 320 Main Street | Manchester | Office Building/Commercial | 10,640 | $ 767,200 | $ 72 | | | | | $ 770,000 |
| 353 Main Street | Manchester | Office Building/Commercial | 5,348 | $ 719,500 | $ 135 | | | $ 695,000 | 2014 | $ 700,000 |
| 150 North Main Street | Manchester | Medical Office Building | 20,656 | $ 1,890,900 | $ 92 | | | $ 982,500 | 2005 | $ 1,890,000 |
| 945 Main St (2 condos) | Manchester | Office Building/Condos | 2,330 | $ 179,429 | $ 77 | $ 174,000 | 2015 | | | $ 180,000 |
| 319 Broad Street | Manchester | Thrift/retail store | 6,236 | $ 617,857 | $ 99 | | | | | $ 620,000 |
| W Middle Tpke; Russell; | Manchester | 12 SFR residentials (1) | 15,233 | $ 1,648,800 | $ 108 | | | | | $ 1,320,000 |
| Hemlock; Hawthorne; Al | Manchester | 5 Vacant Residential parcels | 1.57 acres total | $ 553,400 | | | | | | $ 440,000 |
| 56 Haynes Street | Manchester | Vacant commercial parcel | 0.31 acres | $ 43,700 | | | | | | $ 40,000 |
| Ward, Village, W Main | Vernon | 8 Vacant Res/comls parcel | 1.37 acres | $ 512,680 | | | | | | $ 410,000 |
| Aggregate of minor real estate | | | | | | | | | | $ 8,900,000 |

There are 37 ancillary residential buildings, vacant residential land and small commercial building. These would likely be considered removed from the function of housing operation of the hospitals. This is a time when hospitals are needing less space, as many functions more away from hospital settings and into ambulatory out-patient facilities. a likely buyer would focus on the larger parcels and sell of the smaller non-related properties. For the purpose of valuing the assets of the ECHN business, there smaller properties should be valued in light of their potential sell off.

Sell off Discounted Cash flow

| Year | 1 | 2 | 3 |
|---|---|---|---|
| Gross sales | 2,966,667 | 2,966,667 | 2,966,667 |
| Less: Cost of Sales (8%) | (237,333) | (237,333) | (237,333) |
| Net Proceeds | 2,729,333 | 2,729,333 | 2,729,333 |
| Present value of each period | 2,319,933 | 1,971,943 | 1,676,152 |
| Total present value: | 5,968,029 | | |

**Concluded FMV - Net Proceeds from Nonessential Properties** Rounded **$ 5,970,000**

Inputs:

| | | |
|---|---|---|
| Number of properties | 37 properties | |
| Sell off period | 3 years | 1 per month. |
| Discount rate | 15% Includes profit incentive | |

Cost of sales include brokers' commissions and closing costs

**Improved MOB Sales - MOB**

**SUMMARY OF SMALLER MOB SALES**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Land Acres | Sale Price | $/SF | Uses |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 3/4/2016 | 419 Middle Tpke W | Manchester | CT | 1985 | 2,700 | 0.32 | $ 309,000 | $ 114 | MOB |
| 2 | 3/20/2015 | 450 Woodbridge St | Manchester | CT | 1952 | 2,652 | 0.32 | 125,000 | 47 | MOB |
| 3 | 7/11/2014 | 431 Main St | Manchester | CT | 1952 | 1,588 | 0.08 | 130,000 | 82 | MOB |
| 4 | 5/9/2014 | 353 Main St | Manchester | CT | 1977 | 5,348 | 0.47 | 695,000 | 130 | MOB |
| 5 | 6/21/2013 | 73 W Center St | Manchester | CT | 1950 | 2,200 | 0.23 | 215,000 | 98 | MOB |
| 6 | 4/12/2013 | 16 Main St | Ellington | CT | 1990 | 3,857 | 0.92 | 310,000 | 80 | MOB |
| 7 | 4/10/2013 | 36 Haynes St | Manchester | CT | 1954 | 7,068 | 0.46 | 775,000 | 110 | MOB |
| 8 | 12/27/2012 | 1075 Tolland Tpke | Manchester | CT | 1965 | 9,753 | 1.11 | 700,000 | 72 | MOB |
| | | Medical office buildings | | | | | | Low | $ 47 | |
| | | | | | | | | Average | $ 92 | |
| | | | | | | | | High | $ 130 | |

The sales of small medical office building within the immediate area , show a range from $47 to $130 per square foot, with a average of $92 per square foot.

The MOB properties along Haynes Street, 18, 26, 38, 44 Haynes Street, and 353 Main Street would be expected to fall to the upper end of the range $100 to $129 per square foot. 150 main Street is considered a similar quality MOB; however, due to its much larger size, it would be anticipated to command a price in the $90 to $110 price range. The lower quality commercial buildings would fall to the lower end of the range of $70 to $90 per square foot.

These sales provide support for the Assessor's market value estimate for the initial retail price of the small nonessential

**State of Connecticut, Office of Attorney General**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

**Exhibit G-11**

NAVIGANT
**FINAL**

**Valuation By Cost - JV MOB**

**JV REAL ESTATE PROPERTIES - SUMMARY OF VALUATION CONCLUSIONS**

| Address | City | Property Type | Size | Original Costs | Year | Appreciation (1) | Depreciation (2) | JV % | Fair Market Value - RE Rounded |
|---|---|---|---|---|---|---|---|---|---|
| 100 Haynes Street | Manchester | Cancer Center Medical Building | 30,443 | $ 8,700,000 | 2010 | 16.30% | 15.00% | 15.0% | $ 1,321,965 |
| 29 Haynes Street | Manchester | Medical office building | 11,241 | $ 2,300,000 | 2007 | 19.80% | 22.50% | 22.9% | $ 512,479 |
| 2800 Tamarack Avenue | South Windsor | Medical office building | 40,000 | $ 5,700,000 | 2006 | 29.10% | 25.00% | 20.0% | $ 1,186,740 |
| 2400 + 2600 Tamarack Avenue | South Windsor | Medical office building | 52,615 | $ 12,800,000 | 2009-11 | 16.30% | 15.00% | 20.0% | $ 2,593,280 |
| | | | | | | | | | $ 5,614,464 |

Notes:
(1) MVS has cost appreciate rates for Eastern US in Section 98 page 5.
(2) MVS, Section 97, has Economic life of average Class C medical office as 40 years.

**State of Connecticut, Office of Attorney General** **Exhibit G-12**
**Fair Market Value of**
**Eastern Connecticut Health Network, Inc.**
*Valuation Analysis as of March 31, 2016*
*(Actual Dollars)*

NAVIGANT
**FINAL**

**Improved Newer MOB Sales - JV**

**SUMMARY OF LARGE NEWER MEDICAL OFFICE**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Land Acres | Sale Price | $/SF | Uses |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 5/19/2015 | 999 Silver Ln | Trumbull | CT | 2002 | 27,980 | 2.03 | $ 4,534,750 | $ 162 | Medical |
| 2 | 2/4/2013 | 350 Goose Ln | Guilford | CT | 2000 | 13,200 | 16.00 | 2,209,000 | 167 | Medical |
| 3 | 6/9/2014 | 5 Pequot Park Rd | Westbrook | CT | 2007 | 24,600 | 4.48 | 5,900,000 | 240 | Medical |
| 4 | 11/14/2013 | 1660 Route 112 | Port Jefferson Station | NY | 2010 | 16,302 | 3.26 | 3,150,000 | 193 | Medical and general |
| 5 | 5/28/2013 | 31 Roche Brothers Way | Easton | MA | 2009 | 42,000 | 3.00 | 12,600,000 | 300 | Medical |
| 6 | 11/9/2015 | 101 Industrial Park Rd, 102 | Taunton | MA | 2012 | 9,720 | 6.87 | 2,565,000 | 264 | Medical and general |
| 7 | 1/7/2015 | 3199 W Ridge Rd | Rochester | NY | 2007 | 10,720 | 1.42 | 1,350,000 | 126 | Medical and general |
| 8 | 1/9/2015 | 333 Aviation Rd | Queensbury | NY | 2005 | 7,428 | 1.69 | 1,224,000 | 165 | Medical |

| | | |
|---|---|---|
| Range of New Medical Office | Low | $ 126 |
| | Median | $ 202 |
| | High | $ 300 |

The sales of more recently built medical office buildings in the Northeast, show a range from $162 to $300 per square foot, with a average of $221 per square foot. The three recent sales in Connecticut are at the lower end of the range. The sales of similar medical office buildings support the cost valuation of the JV medical office buildings at 2400, 2600 and 2800 Tamarack Avenue, as well as 29 Haynes Street.

| Indicated Values | | | | SF | Indicated Ranges Low | High | Low | High |
|---|---|---|---|---|---|---|---|---|
| | 29 Haynes Street | Manchester | 2007 | 11,241 | $180 | $205 | $ 2,020,000 | $ 2,300,000 |
| | 2800 Tamarack Avenue | South Windsor | 2006 | 40,000 | $150 | $200 | $ 6,000,000 | $ 8,000,000 |
| 2 properties | 2400 + 2600 Tamarack Avenu | South Windsor | 2008-12 | 52,615 | $220 | $260 | $ 11,580,000 | $ 13,680,000 |

**Improved Cancer Center/Radiology Sales - JV**

**SUMMARY OF NEWER CANCER CENTER/RADIOLOGY BUILDINGS**

| No. | Sale Date | Address | City | State | Year Built | Size (SF) | Land Acres | Sale Price | $/SF | Uses |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 12/31/2012 | 5340 Holy Cross Pky | Mishawaka | IN | 2009 | 49,410 | 7.16 | $ 21,740,000 | $ 440 | Michiana Cancer Center |
| 2 | 8/27/2014 | 111 Marys Avenue | Kingston | NY | 2004 | 36,479 | grd lse | 11,200,000 | 307 | Benedictine Cancer Ctr, tenant: Benedictine Hosp. |
| 3 | 7/17/2014 | 400 W 144th Ave | Westminster | CO | 2012 | 45,092 | 6.23 | 17,173,448 | 381 | Imaging Center with Radiology and CT/MRI |
| 4 | 2/26/2015 | 1924-1934 Alcoa Hwy | Knoxville | TN | 2012 | 100,104 | | 33,660,000 | 336 | Cancer Institute building, MOB adj Hospital |
| 5 | 4/10/2014 | 2473 McFarland Rd | Rockford | IL | 2002 | 10,000 | 1.39 | 2,576,650 | 258 | MOB, former cancer and chemotherapy center |
| 6 | 12/31/2012 | 10700 Charter Dr | Columbia | MD | 2002 | 56,212 | 4.25 | 20,600,000 | 366 | Multi-tenants, an MRI suite |
| 7 | 6/26/2015 | 9020-9024 5th Ave | Brooklyn | NY | 1994 | 24,829 | 0.18 | 7,500,000 | 302 | Multi- tenant, includes MRI suite |
| 8 | 10/7/2013 | 1300 W Jefferson St | Franklin | IN | 2005 | 28,317 | 3.85 | 5,146,000 | 182 | Multi-tenant, 1/3 CT / MRI suite, low density area |

| Range of Cancer Centers and imaging | | | Excluding extremes |
|---|---|---|---|
| | Low | $ 182 | $ 258 |
| | Average | 322 | 325 |
| | High | 440 | 381 |

The sales above range from $182 per square foot to $439 per square foot, but the two extremes are outliers. Excluding the extremes the market is reflecting a range of $258 to $381 per square foot with a average of $325 per square foot. Less weight is given to those with higher ambulatory surgery uses. The sales of similar cancer center or imaging facilities support the cost valuation of 100 Haynes Street.

| Indicated Values | | | | Indicated Ranges | | | |
|---|---|---|---|---|---|---|---|
| | | | SF | Low | High | Low | High |
| 100 Haynes Street | Manchester | 2009 | 30,443 | $290 | $320 | $8,800,000 | $9,700,000 |