

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION**

In the Matter of)

Community Healthcare Systems, Inc.,)
A corporation;)

and)

Healthcare Management Associates, Inc.,)
a corporation.)

Docket No. C-4427

APPLICATION FOR APPROVAL OF PROPOSED DIVESTITURE

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1. Introduction

Pursuant to Section 2.41(f) of the Federal Trade Commission's (the "Commission") Rules of Practice and Procedure¹ and Paragraph II of the Decision and Order (the "Order") in *Community Health Systems, Inc. and Health Management Associates, Inc.*, Community Health Systems, Inc. ("CHS" or "Respondent") requests the Commission approve the divestiture of the "Carolina Pines Assets" (as defined below) to Capella Healthcare, Inc. ("Capella").²

The divestiture will "ensure the continuation of the Carolina Pines Regional Medical Center as an ongoing, viable Acute Care Hospital providing General Acute Care Inpatient Hospital Services." Capella is a qualified and viable purchaser of the Carolina Pines Assets; it is a highly regarded owner, lessor and operator of thirteen acute care and specialty care hospital campuses located in markets similar to the market in which the Carolina Pines Assets operate in. Divestiture of the Carolina Pines Assets to Capella, if approved, will fulfill the purpose of the Order.

2. The Assets to Be Divested

On July 29, 2013, CHS agreed to acquire Health Management Associates, Inc. ("HMA") through merger;³ the transaction was consummated on January 27, 2014.⁴ On April 11, 2014, the Commission issued a Decision and Order ("Order") requiring CHS to divest the Carolina Pines Assets "absolutely and in good faith ... as an ongoing business ... to an acquirer that

¹ 16 C.F.R. § 2.41(f)

² Capella's website is <http://www.capellahealth.com/>.

³ *Community Health Systems to Acquire Health Management Associates* (July 30, 2013), available at <http://www.chs.net/investor-relations/press-room-media-releases/>.

⁴ *Community Health Systems Completes Acquisition of Health Management Associates* (January 27, 2014), available at <http://www.chs.net/investor-relations/press-room-media-releases/>.

receives the prior approval of the Commission, and only in a manner ... that receives the prior approval of the Commission.”⁵

The Carolina Pines Assets⁶ include the tangible and intangible assets⁷ relating to or used in connection with the Hospital Services and Outpatient Business⁸ of the Carolina Pines Regional Medical Center⁹ and the Carolina Pines Outpatient Facilities.¹⁰

3. Divestiture to Capella is Consistent with the Requirements of the Decision and Order

CHS’s ownership interest in the Carolina Pines Assets will be divested to Capella pursuant to an executed Purchase Agreement (“Agreement”) dated October 10, 2014, by and among Carolinas JV Holdings, L.P., CHS/Community Health Systems, Inc., Carolina Pines Holdings, LLC, and Capella Healthcare Inc. The Agreement is attached as Exhibit One.¹¹

Capella (through its wholly owned subsidiary Carolina Pines Holdings, LLC) will acquire from Carolinas JV Holdings, L.P. (a wholly owned subsidiary of CHS) 100% of CHS’s membership interests in each of Hartsville HMA, LLC¹² (“HHMA”), and Hartsville Medical Group, LLC¹³ (“HMG”). (HHMA and HMG are, collectively, the “Acquired Companies.”)

⁵ Decision and Order, ¶I.A., *Community Health Systems, Inc. and Health Management Associates, Inc.*, Docket No. C-4427, April 11, 2014.

⁶ Defined at ¶I.G, Decision and Order

⁷ The tangible and intangible assets include: real property interests; Tangible Personal Property; rights under any and all contracts and agreements; rights and title in and use of the name Carolina Pines Regional Medical Center and all Carolina Pines Outpatient Facilities on a permanent and exclusive basis; Medicare and Medicaid provider numbers for the Carolina Pines Regional Medical Center and all Carolina Pines Outpatient Facilities (to the extent transferable); Intellectual Property; intangible rights and property other than Intellectual property; approvals, consent, licenses, registrations, permits, waivers and other authorizations; all consumable or disposable inventory; accounts receivables; prepaid expenses; rights under warranties and guarantees; and, Business Records. The assets are more thoroughly described in ¶I.G, Decision and Order, and related definitions. (Capitalized terms are as defined in the Decision and Order.)

⁸ Defined at ¶I.O, Decision and Order.

⁹ Defined at ¶I.I, Decision and Order.

¹⁰ Defined at ¶I.H, Decision and Order.

¹¹ Confidential treatment is requested for the Agreement.

¹² CHS holds 98.44% of the membership interests in Hartsville HMA, LLC.

¹³ CHS owns 100% of the membership interests of Hartsville Medical Group, LLC.

CHS, through the Acquired Companies, owns and operates¹⁴ Carolina Pines Regional Medical Center and related businesses, including physician clinic operations and other ancillary services and operations. With the exception of certain excluded assets and liabilities described at ¶¶ 1.3, 1.4 and Schedule 1.3 of the Agreement, all tangible and intangible assets of the Carolina Pines Assets will be acquired by Capella, as required by the Decision and Order.

CHS will divest the Carolina Pines Assets as an “ongoing business.” CHS has represented and warranted to Capella that it has all licenses, registrations, permits, and approvals required to operate a general, acute care hospital in South Carolina, and that no permits or licenses preclude or limit Capella’s ability to control the Carolina Pines Assets.¹⁵ CHS is subject to customary and the usual covenants related to operating the Carolina Pines Assets prior to consummation of the divestiture to Capella.¹⁶

CHS is obligated (i) to obtain all governmental approvals necessary or required, and (ii) to assist and cooperate with Capella in obtaining all government consents, approvals, and licenses which Capella deems necessary or appropriate, to effectuate the transaction contemplated by the Agreement.¹⁷ CHS must use reasonable commercial efforts to satisfy all conditions precedent to closing. The Agreement includes an employee non-solicitation provision, consistent with the Decision and Order.¹⁸ CHS will not have a continuing interest in the Carolina Pines Assets, nor will CHS have a financial stake in the Carolina Pines Assets upon their divestiture to Capella.

¹⁴ CHS owns and operates Carolina Pines Regional Medical Center (and related businesses) subject to the restrictions of the Order to Hold Separate and Maintain Assets. CHS acquired the Carolina Pines Assets from HMA.

¹⁵ Agreement at ¶¶ 3.6, 3.7, 3.8. and 3.9.

¹⁶ Agreement at ¶¶ 5.2, 5.3, consistent with ¶ II.B, Decision and Order.

¹⁷ Agreement at ¶¶ 5.4, 5.5, consistent with ¶ II.C, Decision and Order.

¹⁸ Agreement at ¶9, consistent with ¶V.F, Decision and Order.

Consistent with the requirements of the Decision and Order¹⁹, CHS and Capella have also entered into an Information Technology Transition Services Agreement and a Transition Services Agreement. The term of each agreement is twelve months. The Information Technology Transition Services Agreement is attached as Exhibit Two; Schedule One identifies the specific information services CHS is obligated to provide (itself or through subcontracting to a third party) to Capella.²⁰ The Transition Services Agreement is attached as Exhibit Three; Exhibit A describes the specific transition services to be provided to Capella.²¹ CHS believes the scope of services it is obligated to provide is consistent with the services required by Capella during the first year of its ownership and operation of the Carolina Pines Assets.

4. **Capella Is a Qualified and Viable Purchaser, Capable of Effectively Operating the Carolina Pines Assets**

Capella is a privately-held company, founded in 2005 by former executives of Province Healthcare, in a partnership with GTCR Golder Rauner, LLC (“GTCR”).²² Capella is headquartered in Franklin, Tennessee.²³

Capella owns, leases and operates thirteen acute care and specialty care hospital campuses.²⁴ Capella’s hospitals typically offer general acute care services, including internal medicine, general surgery, cardiology, oncology, orthopedics, women’s services, neurology, and emergency services. Their facilities also may offer specialized and ancillary services, including, psychiatric, diagnostic, rehabilitation, home health and outpatient surgery. Capella’s hospitals

¹⁹ ¶ VI, Decision and Order.

²⁰ Confidential treatment is requested for the Information Technology Transition Services Agreement.

²¹ Confidential treatment is requested for the Transition Services Agreement.

²² Information about GTCR’s leadership, focus, and investments, is available at GTCR’s website, <http://www.gtc.com/>. GTCR owns, indirectly, 85% of Capella, and elects the majority of the board of directors of the holding company that holds 100% of Capella’s common stock.

²³ Capella’s full address is 501 Corporate Centre Drive, Suite 200, Franklin, Tennessee, 37067.

²⁴ Capella owns ten of the eleven hospitals they operate. The hospitals have approximately 1,500 licensed beds.

have received numerous awards and recognition for their provision of quality care and high service to patients.²⁵

Capella has a strong commitment to the communities in which its hospitals are located; in 2013, Capella provided charity care valued at \$12.26 million. Fact sheets and “community benefit sheets” on each of the thirteen operated hospitals are provided at Exhibits Four through Fourteen.

Capella has the financial resources necessary to operate the Carolina Pines Assets as an effective provider of general, acute care and related services. Capella’s revenues from continuing operations for 2013, 2012 and 2011 were \$722.3 million, \$718.2 million, and \$651.4 million (net of provisions for bad debt). Its revenues for the first six months of 2014 were \$374.7 million. (Capella’s 2013 Form 10-K, which includes its most recent annual financial statements, is provided at Exhibit Fifteen A; its June 2014 Form 10-Q is included as Exhibit Fifteen B.) GTCR has, over time, committed \$210 million to Capella in support of its founding and its growth,²⁶ and Capella has access to existing cash, untapped equity commitments from GTCR, and the ability to incur additional debt, if necessary, to fund its operations and expansion.

Capella’s executive management team has extensive experience in acquiring and operating hospitals and hospital networks. A list of Capella’s senior officers and members of its board of directors is provided at Exhibit Sixteen; background information on each of its senior officers and directors is provided at Exhibit Seventeen. Capella has successfully acquired hospitals before, including the purchase of nine CHS hospitals in 2008.

²⁵ See Exhibit A to Capella Healthcare, Value Proposition, attached as Exhibit Eighteen.

²⁶ *Capella, Company Profile*, available at <http://www.capellahealth.com/investor-relations/>.

Capella is well positioned and financially capable of operating the Carolina Pines Assets. For additional information about Capella, please contact Michael Wiechart, President and Chief Executive Officer.²⁷

5. Request for Confidential Treatment

This application (including the exhibits) contains confidential and competitively sensitive information relating to the divestiture of the Carolina Pines Assets. Pursuant to Section 4.2(d)(4) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.2(d)(4), CHS is submitting two versions of this Application. The confidential version contains nonpublic or commercially or competitively sensitive information. The public version redacts confidential information. Pursuant to Sections 6(f) and 21(c) of the Federal Trade Commission Act, 15 U.S.C. §§ 46(f) and 57b-2(c), and Sections 2.41(f)(4), 4.9(c) and 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. §§ 2.41(f)(4), 4.9(c) and 4.10(a)(2), CHS requests that all nonpublic or commercially or competitively sensitive information contained in the Application be treated by the Commission as strictly confidential and not be made available to the public. The disclosure of such information may prejudice CHS and Capella. If the Commission cannot treat this application as confidential, we request that the Commission inform us immediately, to provide CHS an opportunity to seek appropriate relief.

6. Conclusion

Because the proposed divestiture is pro-competitive, in the public interest and addresses the competitive concerns raised in the Order, and for the additional reasons set forth above, CHS requests that the Commission approve the proposed divestiture.

²⁷ Mr. Wiechart's telephone number will be provided under separate cover to the Compliance Division.

CHS desires to complete the proposed divestiture of the Carolina Pines Assets as soon as possible. Prompt consummation will further the purposes of the Order, and is in the interests of the Commission, the public, Capella, and CHS. Accordingly, CHS requests that the Commission promptly commence the public comment period pursuant to Section 2.41(f) of the Commission's Rules, 16 C.F.R. § 2.41(f) (2014), limit the comment period to the customary 30 days, and approve this application for divestiture as soon as practicable after the close of the public comment period.

Dated: October 14, 2014

Respectfully submitted,

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