



**GLENN F. ELIA**  
Chief Executive Officer

*JAN 8-07*

*Ms. ROBERTS,*

*PLEASE DO NOT HESITATE TO CALL  
ME DIRECTLY IF YOU HAVE ANY  
QUESTIONS -*

*REGARDS*

*Glenn Elia*



**GLENN F. ELIA**

CHIEF EXECUTIVE OFFICER

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518  
(203) 407-3576 • FAX 407-4245 • EMAIL: [GELIA@CT-ORTHO.COM](mailto:GELIA@CT-ORTHO.COM)



M. JODI RELL  
GOVERNOR

STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

CRISTINE A. VOGEL  
COMMISSIONER

December 11, 2006

Mr. Glenn Elia  
Chief Executive Officer  
Connecticut Orthopaedic Specialists, P.C.  
2408 Whitney Avenue  
Hamden, CT 06518

RE: A pending Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition and operation of an MRI unit at 84 North Main Street in Branford  
Connecticut Orthopaedic Specialists, P.C.

Dear Mr. Elia:

It has come to the attention of the Office of Health Care Access ("OHCA") that Connecticut Orthopaedic Specialists, P.C. ("COS") has recently acquired and commenced operation of an MRI unit at its practice location at 84 North Main Street in Branford. On COS's website ([www.ct-ortho.com](http://www.ct-ortho.com)) it lists MRI services at the Hamden location (see CON determination filed under Report Number 04-30288-DTR) and at the Branford location. There is no Certificate of Need ("CON") or CON Determination filing regarding the Branford acquisition. OHCA further understands that this MRI may have only commenced operation in the fall of 2006. As such, OHCA is commencing this CON determination inquiry under Report Number 06-30881-DTR in order to gather pertinent information and documentation regarding this MRI acquisition.

Please note that Public Act No. 05-93, An Act Concerning the Capital Expenditure Threshold for the Regulation of Equipment Acquisition, allows the following: *"(c) Each health care facility, institution or provider that proposes to purchase, lease or accept donation of a ... MRI scanner ... shall be exempt from certificate of need review pursuant to sections 19a-638 and 19a-639, as amended by this act, if such facility, institution or provider (1) provides to the office satisfactory evidence that it purchased or leased such equipment for under four hundred thousand dollars on or before July 1, 2005..."*

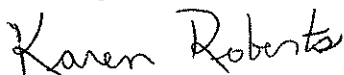
This was subsequently amended by Public Act No. 06-28, An Act Concerning Certificate of Need Capital Expenditure Thresholds to further allow the following: *"(c) Each health care facility, institution or provider that proposes to purchase, lease or accept donation of a ... MRI scanner ... shall be exempt from certificate of need review ... if such facility, institution or provider (1) provides to the office satisfactory evidence that it purchased or leased such equipment for under four hundred thousand dollars on or before July 1, 2005, and such equipment was in operation on or before July 1, 2006..."*

As a result of the above, OHCA is requiring documentation and information regarding this matter as follows:

1. Is COS providing/offering MRI services at its 84 North Main Street location in Branford?
2. What legal entity bills for and collects revenue for these MRI services? What legal entity charges the technical vs. the professional fees for these MRI services?
3. Did COS hire a radiologist to read these MRI scans or did COS enter into a contractual arrangement for an independent radiologist(s) to read/interpret the scans? Please file a copy of either the hiring contract or the independent contractor agreement.
4. Provide evidence that the MRI that is in operation at 84 North Main Street in Branford was acquired by COS on or before July 1, 2005. OHCA considers the following to be relevant evidence of acquisition: invoices, cancelled checks for the equipment, lease agreements for the equipment, accepted price quotes and down payments. OHCA will also consider any other evidence you wish to submit in support of your contention that the MRI unit was acquired on or before July 1, 2005.
5. Provide evidence that the MRI that is in operation at 84 North Main Street in Branford was placed in operation on or before July 1, 2006. OHCA considers the following to be relevant evidence of being in operation: copies of patient bills (redacted of any patient confidential information) and insurance claim forms. OHCA will also consider any other evidence you wish to submit in support of your contention that the MRI unit was in operation on or before July 1, 2006.
6. If it is COS' contention that this MRI unit was acquired prior to July 1, 2005 and in operation prior to July 1, 2006, please provide evidence of any and all capital costs and expenditures related to the acquisition and start up of this unit (purchase or lease agreement) and any associated costs (renovations, new construction, associated equipment/furnishings, capitalized training costs or maintenance contracts, etc.)

Please file a response to the above CON determination inquiry by December 18, 2006. Please file an original and three copies of your response document and repeat the above inquiry questions prior to the response to each. Be sure to paginate your submission in its entirety including any attachments. Please contact me at (860) 418-7041 if you have any questions regarding the above.

Sincerely,



Karen Roberts  
Compliance Officer

PARRETT, PORTO, PARESE & COLWELL  
PROFESSIONAL CORPORATION  
ATTORNEYS AND COUNSELLORS AT LAW

CARL M. PORTO  
cporto@pppclaw.com

ONE HAMDEN CENTER  
2319 WHITNEY AVENUE  
HAMDEN, CONNECTICUT 06518

(203) 281-2700  
FAX: (203) 281-0700  
WWW.PPPCLAW.COM

December 15, 2006

VIA FACSIMILE (860) 418-7053  
AND FIRST CLASS MAIL

Ms. Karen Roberts  
State of Connecticut  
Office of Health Care Access  
410 Capitol Avenue, MS#13HCA  
P. O. Box 340308  
Hartford, Connecticut 06134-0308

RECEIVED  
2006 DEC 18 PM 1:20  
CONNECTICUT OFFICE OF  
HEALTH CARE ACCESS

**Re: A pending Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition and operation of an MRI unit at 84 North Main Street in Branford  
Connecticut Orthopaedic Specialists, P.C.**


Dear Ms. Roberts:

Please be advised that your letter of December 11, 2006, to Connecticut Orthopaedic Specialists, P.C. (COS) has been referred to our office for attention. It is my understand that Mr. Glenn Elia, the Chief Executive Officer, has already responded by phone indicating that they are in the process of gathering and assembling the information that you have requested. However, given the timeframe involved, it will not be possible for COS to comply by December 18, 2006, and we are hereby requesting an extension of that date within which to supply the information you have requested. I contacted your office today, however, as I was unable to speak to you directly, I thought I would forward this letter.

I will call you again on Monday to see if we can agree upon a mutually acceptable date within which to respond. Please be assured that it is COS's desire and intent to cooperate with your office, and to resolve any outstanding potential issues.

I remain,

Very truly yours,

  
Carl M. Porto

/ae  
cc: Mr. Glenn Elia  
Stephen Cowherd, Esquire

**PARRETT, PORTO, PARESE & COLWELL**PROFESSIONAL CORPORATION  
ATTORNEYS AND COUNSELLORS AT LAW**FACSIMILE TRANSMITTAL**

RICHARD J. PARRETT  
CARL M. PORTO  
JOHN A. PARESE  
WILLIAM S. COLWELL  
MICHAEL DEAN AMATO  
LOUIS M. FEDERICI  
ANTHONY M. SOLOMINE  
CARL M. PORTO II  
JOSEPH M. PORTO  
JOHN M. PARESE  
SANDRA L. SMITH  
CHRIS E. NELSON  
JENNIFER RIGNOLI

2006 DEC 15 PM 2:58

CONNECTICUT OFFICE OF  
HEALTH CARE ACCESS

ONE HAMDEN CENTER  
3319 WHITNEY AVENUE  
HAMDEN, CONNECTICUT 06518  
PHONE: (203) 281-2700  
FAX (203) 281-0700  
WWW.PPPCLAW.COM

**IMPORTANT MESSAGE**

The information contained in this facsimile message is privileged and/or confidential and is intended only for use of the individual or entity named below. If the reader of this message is not the intended recipient or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by telephone and return the original message to us at the above address via the U.S. Postal Service. Our telephone number is (203) 281-2700. Our fax number is (203) 281-0700. Thank you.

DATE: 12-15-06

**PLEASE DELIVER THE FOLLOWING PAGES TO:**

NAME: Karen Roberts

FIRM/DEPARTMENT: State of Connecticut, Office of Health Care Access

TELECOPY NUMBER: (860) 418-7053

SENDER: Carl M. Porto  
**PARRETT, PORTO, PARESE & COLWELL, P.C.**

**WE ARE TRANSMITTING 2 PAGES (INCLUDING THIS COVER SHEET).  
IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL (203) 281-2700.**

MEMO cc: Glenn Elia (203) 407-4245  
Stephen Cowherd, Esquire (203) 259-1070

**PARRETT, PORTO, PARESE & COLWELL**PROFESSIONAL CORPORATION  
ATTORNEYS AND COUNSELLORS AT LAW

RECEIVED

CARL M. PORTO  
cporto@pppclaw.comONE HAMDEN CENTER  
2319 WHITNEY AVENUE  
HAMDEN, CONNECTICUT 065182006 DEC 15 PM 2:58  
(203) 281-2700  
FAX (203) 281-0700  
WWW.PPPCLAW.COM

December 15, 2006

**VIA FACSIMILE (860) 418-7053  
AND FIRST CLASS MAIL**Ms. Karen Roberts  
State of Connecticut  
Office of Health Care Access  
410 Capitol Avenue, MS#13HCA  
P. O. Box 340308  
Hartford, Connecticut 06134-0308**Re: A pending Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition and operation of an MRI unit at 84 North Main Street in Branford  
Connecticut Orthopaedic Specialists, P.C.**

Dear Ms. Roberts:

Please be advised that your letter of December 11, 2006, to Connecticut Orthopaedic Specialists, P.C. (COS) has been referred to our office for attention. It is my understand that Mr. Glenn Elia, the Chief Executive Officer, has already responded by phone indicating that they are in the process of gathering and assembling the information that you have requested. However, given the timeframe involved, it will not be possible for COS to comply by December 18, 2006, and we are hereby requesting an extension of that date within which to supply the information you have requested. I contacted your office today, however, as I was unable to speak to you directly, I thought I would forward this letter.

I will call you again on Monday to see if we can agree upon a mutually acceptable date within which to respond. Please be assured that it is COS's desire and intent to cooperate with your office, and to resolve any outstanding potential issues.

I remain,

Very truly yours,

  
Carl M. Porto

/ae

cc: Mr. Glenn Elia  
Stephen Cowherd, Esquire

**JEFFERS & IRELAND  
PROFESSIONAL CORPORATION**

55 WALLS DRIVE, FAIRFIELD, CT 06824  
PHONE: (203) 259-7900 ♦ FAX: (203) 259-1070  
www.jeffire.com

RECEIVED

2006 DEC 18 PM 4:11

CONNECTICUT OFFICE  
HEALTH CARE ACCESS**FACSIMILE TRANSMITTAL SHEET**

TO:

Ms. Karen Roberts

FACSIMILE NO.:

860-418-7053

CC:

FACSIMILE NO.:

FROM:

Stephen M. Cowherd, Esq.

DATE:

12/18/2006

RE:

Connecticut Othropaedic Specialists, P.C.

TOTAL NO. OF PAGES INCLUDING COVER:

2

NOTES/COMMENTS

The information contained in this facsimile message is privileged and confidential information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by telephone and return the original document to us at the above address via the U.S. Postal Service. Thank you.

RECEIVED

2006 DEC 18 PM 4:56

## JEFFERS &amp; IRELAND

PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

55 WALLS DRIVE

CONNECTICUT OFFICE OF  
HEALTH CARE ACCESS

FAIRFIELD, CONNECTICUT 06824

KAREN A. JEFFERS  
PAMELA T. IRELAND  
STEPHEN M. COWHERDTINA PASSALARIS  
JASON A. MARSH  
MICHELLE S. GOGLIAOF COUNSEL  
CAROLYN R. LINSEYTELEPHONE (203) 259-7900  
TELECOPIER (203) 259-1070  
WWW.JEFFIRE.COM


December 18, 2006

Via Fax (860) 418-7053 & U.S. MailMs. Karen Roberts  
Compliance Officer  
State of Connecticut  
Office of Health Care Access  
410 Capitol Avenue, MS#13HCA  
P. O. Box 340308  
Hartford, CT 06134-0308Re: A pending Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition and operation of an MRI unit at 84 North Main Street in Branford  
Connecticut Orthopaedic Specialist, P.C.

Dear Ms. Roberts:

Pursuant to our communication of this morning, this will confirm that Connecticut  
Orthopaedic Specialists, P.C. ("COS") will file its written response to the above CON  
Determination inquiry by Monday, January 8, 2007.Thank you again for the courtesies you have extended COS in this regard and please  
contact me at the above number should you require anything further.

Very truly yours,

  
Stephen M. Cowherd

SMC:ap

cc: Mr. Glenn Elia (via fax )  
Carl M. Porto, Esq. (via fax)

JEFFERS & IRELAND RECEIVED  
PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW  
55 WALLS DRIVE  
FAIRFIELD, CONNECTICUT 06824

2006 DEC 21 PM 2:08

KAREN A. JEFFERS  
PAMELA T. IRELAND  
STEPHEN M. COWHERD

TINA PASSALARIS  
JASON A. MARSH  
MICHELLE S. GOGLIA

OF COUNSEL  
CAROLYN R. LINSEY

CONNECTICUT OFFICE OF  
HEALTH CARE ACCESS  
TELEPHONE (203) 259-7900  
TELECOPIER (203) 259-1070  
WWW.JEFFIRE.COM

December 18, 2006

**Via Fax (860) 418-7053 & U.S. Mail**

Ms. Karen Roberts  
Compliance Officer  
State of Connecticut  
Office of Health Care Access  
410 Capitol Avenue, MS#13HCA  
P. O. Box 340308  
Hartford, CT 06134-0308


Re: A pending Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition and operation of an MRI unit at 84 North Main Street in Branford  
Connecticut Orthopaedic Specialist, P.C.

Dear Ms. Roberts:

Pursuant to our communication of this morning, this will confirm that Connecticut Orthopaedic Specialists, P.C. ("COS") will file its written response to the above CON Determination inquiry by Monday, January 8, 2007.

Thank you again for the courtesies you have extended COS in this regard and please contact me at the above number should you require anything further.

Very truly yours,

  
Stephen M. Cowherd

SMC:ap

cc: Mr. Glenn Elia (via fax )  
Carl M. Porto, Esq. (via fax)



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE Hip/Knee SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**  
(203) 882-3376

- TITIC LIMB SALVAGE
- FOOT SURGERY

### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

January 8, 2007

### VIA HAND DELIVERY

Karen Roberts  
Compliance Officer  
State of Connecticut  
Office of Health Care Access  
410 Capitol Avenue MS# 13HCA  
P.O. Box 340308  
Hartford, CT 06134-0308

RE CON Determination Inquiry # 06-30881-DTR

Dear Ms. Roberts:

Attached to this letter you will find the formal response of Connecticut Orthopaedic Specialists, P.C. (COS) to your letter of December 11<sup>th</sup> regarding OCHA's inquiry into the acquisition and operation of our MRI unit located at 84 North Main Street in Branford, CT. As always, we are prepared to cooperate with you and your office to resolve any outstanding questions or issues.

By way of background, please allow me to give you a brief overview of our practice, its physicians and the diversified healthcare services offered to our patient population.

Connecticut Orthopaedic Specialists, P.C. is a multi-specialty physician practice that specializes in the care and treatment of musculo-skeletal disease. COS employs 20 full time physicians, 17 orthopedic surgeons, 2 podiatrists and 1 physiatrist. Our practice also has direct service contracts with 2 anesthesiologists and 1 radiologist. There are COS office locations (8) from Milford to Wallingford, and along the eastern shoreline in Branford, Guilford and Madison.

COS was the first orthopedic group in the state to apply for and receive a CON waiver for our surgical center in Hamden. This center has been in operation for almost 9 years and has received the American Academy of Ambulatory Health Care's highest level of accreditation, as well as national recognition for our cost containment and management. In April 2004, COS applied to OCHA for a CON waiver for a new ONI 1.0T

RECEIVED  
2007 JAN -8 PM 12:32  
COMPLIANCE OFFICE  
HEALTH CARE ACCESS



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**  
(203) 882-3376

- TISSUE LIMB SALVAGE
- FASCIA SURGERY

### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

MRI. The waiver was granted and this unit has been in service exclusively for our patients since August of 2004.

COS takes considerable pride in being a leader and innovator in orthopedic/musculo skeletal care in the State of Connecticut. Our practice enjoys favorable relationships with the hospitals that we serve, the Hospital of St. Raphael's and Yale New Haven Hospital. Our physicians provide the exclusive orthopedic care for all undergraduate Yale University students and employees enrolled in the Yale Health Plan, and for the past 6 years, we have served as the team doctors for Yale University and Quinnipiac University.

This organization also recognizes its responsibility to provide for the less fortunate in our state. We are proud to inform you that every one of the COS physicians is a participating physician in the State of Connecticut Medicaid program. This is a rarity among subspecialty physicians, and COS is the only New Haven based orthopedic group which administers to these patients. We also participate in the Anthem and Health Net managed Medicaid programs. Our doctors give freely of their time and talents to the local hospitals by covering at the clinics for the uninsured at both hospitals, as well as teach orthopedic residents interning at the Yale Medical School. Presently, Dr. John Aversa is serving as the Chief of Staff at St. Raphael's Hospital and Dr. Enzo Sella is chairing the Orthopedic Section at the Hospital of St. Raphael's. Dr. Peter DeLuca is working with Yale New Haven Children's Hospital as the Chief of Pediatric Orthopedic Surgery.

As the Chief Executive Officer of this company for the past 13 years, I have worked closely with every major insurer in Connecticut. Over this time I have been able to gain their trust and have thus developed an extremely favorable working relationship with all of the insurers, especially with Anthem and Health Net. Proof of this positive working relationship is evidenced by the fact that COS has in place contractual agreements with Anthem and Health Net for the surgical center and both of our MRI facilities.

Thank you in advance for allowing me to give you a brief summary of this practice and the contributions it is making to improving the health care delivery system in Connecticut. As a result of the hard work of our physicians and the high quality care they provide to their patients, the practice has grown steadily over the years in the communities that we



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**

(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**

(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**

(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**

(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**

(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILLIZOV SURGERY

**RICHARD DIANA, M.D.**

(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**

(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**

(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**

(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**

(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**

(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**

(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**

(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**

(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**

(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**

(203) 882-3376

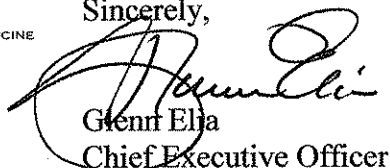
- TIC LIMB SALVAGE
- FOOT SURGERY

serve. As a result, we believe COS has developed an outstanding reputation as one of the premier specialty practices in the State while improving access and controlling the cost of our services.

In planning the purchase and utilization of our second MRI unit in Branford, the same careful, thoughtful approach was applied that has been demonstrated throughout the history of this organization's development. I am completely confident that you will find upon your review of the attached response documents, that COS fully complied with all of the requirements set forth by Public Acts No. 05-93 and 06-28.

I look forward to answering any questions that you might have and working through this matter with you to your satisfaction.

Sincerely,



Glenn Elia  
Chief Executive Officer

### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

**1. Is COS providing / offering MRI services at its 84 N. Main St. location in Branford?**

Yes, Connecticut Orthopedic Specialists has installed GE 1.0 T MRI unit in this location. This MRI unit was installed in May 2006 and has been in operation since June 30, 2006.

**2. What legal entity bills for and collects revenue for these MRI services? What legal entity charges the technical vs. the professional fees for these MRI services?**

All services provided at Connecticut Orthopedic Specialists, P.C. (COS) including MRI are billed and collected under a single tax id number. 06-0855842 Based on our contractual agreements with insurance payers, COS charges and is reimbursed a global fee for it's MRI services which includes both the technical and professional fee. These HMO agreements are unique in that COS has provided guarantees to the payers that our utilization will stay within 5% of our historical utilization trends. COS provides MRI services exclusively for patients who are being seen and treated by COS physicians. We do not accept referrals for MRI services from physicians outside of our practice.

**3. Did COS hire a radiologist to read MRI scans or did COS enter into a contractual arrangement on or before July 2005.**

COS has two separate agreements with radiologists to read our scans. In September 2004, COS entered into an agreement with New Haven Radiologist Associates, P.C. to read MRI scans from our Hamden location. In June 2006, in anticipation of the opening of our Branford location, COS entered into a separate agreement with Dr. Joseph Gagliardi to provide on-site readings and to manage our Quality Assurance Program. COS utilizes both New Haven Radiologist and Dr. Gagliardi as to provide seamless coverage as well as appropriate on site supervision of services rendered.

See Attachment A – Radiologist agreements & CV

**4. Provide evidence that the MRI that is in operation at 84 North Main Street Branford was acquired by COS on or before July 1, 2005.**

See Attachment B- March 29, 2005 signed Purchase Agreement, and cashed down payment check made out to GE Health Financial Services dated March 29, 2005

**5. Provide evidence that the MRI that is in operation at 84 North Main Street Branford was placed in operation prior July 1, 2006.**

See Attachment C – Redacted patient intake form dated June 29, 2006, COS Booking referral form 6-29-06 & Radiologist report dated June 29, 2006 and read on June 30, 2006

**6. Please provide evidence of any and all capital costs and expenditures related to the acquisition and start up of this unit.**

The MRI Unit was purchased and subsequently financed via a master lease with Popular Leasing USA Inc. for \$349,000. In addition, COS purchased a turn key building at 84 North Main Street Branford for a total sum of \$5,671,049.21 in May 2006. We have provided OCHA with a cost breakdown sheet representing the contractor's charge to COS for the fit up of the building relative to the MRI installation and services. Construction delays explain why the unit was not installed and then put into service until June 2006.

See Attachment D - Purchase invoice from GE for \$349,000, Master lease from Popular Leasing USA, Inc., Two letters and a cost breakdown from our building contractor Jester Development.

## **Attachment A**



#### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DELOTT, D.P.M.**  
(203) 882-3376

- LASECA LIMB SALVAGE
- FOOT SURGERY

#### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

September 29, 2004

E. K. Prokop MD  
Cardiac Diagnostic Unit  
Hospital of St. Raphael  
1450 Chapel Street  
New Haven, CT 06511

Dear Dr. Prokop:

Thank you for your expressed interest in providing radiology reading services for this group's new extremity MRI. The following outline represents my understanding of the agreement that we have discussed in our prior conversations.

### Services to Be Rendered

The HSR Radiology Group (RG) will provide professional reading of the COS MRI images. These images will be electronically transmitted to a RG site and read at that location. Prior to the establishment of a T1 line, the MRI studies will be copied onto a CD and delivered to a RG site.

The RG will dictate, transcribe and transmit a report back to the COS MRI Center. (COS). Upon request, a film copy of the image will also be returned to COS.

The RG will make available by phone, radiology physicians who can discuss with COS physicians the specific findings of the MRI studies done at the COS facility.

### Fee For Service

COS agrees to reimburse RG seventy five dollars per study for the professional read services. Additionally, COS agrees to reimburse RG a set amount which has yet to be determined for the transcription work of each report generated.

### Term

COS and RG would enter into a one year agreement that would allow either party to terminate the agreement for cause.



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**

(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**

(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**

(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**

(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**

(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**

(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**

(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**

(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**

(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**

(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**

(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**

(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**

(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**

(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**

(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DELOTT, D.P.M.**


(203) 882-3376

- LIMBIC LIMB SALVAGE
- FOOT SURGERY

It is understood that this is a new venture for both parties and therefore a certain degree of flexibility is required to insure that this matter is mutually beneficial.

Once again, thank you for your expressed interest. It is my sincere belief that this matter represents an opportunity that will be rewarding for both Connecticut Orthopaedic Specialists and your medical practice. If you require any additional information prior to your presentation to the Board of Directors, please do not hesitate to contact me.

Best regards,



Glenn Elia  
Chief Executive Officer

CC: John Aversa MD  
President, COS

### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800



#### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILLIZOV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**FREY M. DELOTT, D.P.M.**  
(203) 882-3376

- LUMBOSACRAL LIMB SALVAGE
- FOOT SURGERY

#### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

To: Joseph A. Gagliardi, M.D.

From: Glenn Elia, CEO

Re: MRI

Dear Dr. Gagliardi

Thank you for your expressed interest in providing radiological services consisting of reading MRI images for Connecticut Orthopaedic Specialists, P.C. (COS), in Branford, Connecticut. The following represents our understanding of the agreement that we have reached and the terms of the agreement.

### Services to Be Rendered

You will professionally read and provide appropriate information and reports for COS MRI images which are taken at COS's office in Branford, Connecticut. The images will be read by you on a daily basis at a time to be mutually agreed upon between you and COS.

You will dictate, transcribe and transmit a report to COS and, if necessary, provide any further information that should be reasonably requested or required by COS physicians regarding the MRI images.

You will be reasonably available by phone to discuss with COS physicians any of the specific findings of the MRI studies performed at the COS facility.

### Fee for Service

COS agrees to pay you \$75.00 for reading and reporting on each MRI image. Additionally, COS agrees to reimburse you a fixed amount to be mutually agreed upon for the transcription of any report that is generated with regard to reading the MRI images.

You shall be paid the above fee for service on a monthly basis upon the submission of a statement for the MRI images read.



#### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**FREY M. DELOTT, D.P.M.**  
(203) 882-3376

- DYNAMIC LIMB SALVAGE
- FOOT SURGERY

#### OFFICE LOCATIONS

GUILFORD (203) 453-6340  
HAMDEN (203) 407-3500  
MILFORD (203) 882-3373  
NEW HAVEN (203) 789-2211  
ORANGE (203) 795-4784  
WALLINGFORD (203) 265-1800

## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### Independent Contract

You are an independent contractor and not an employee of COS. As an independent contractor, you are not entitled to any other fees, benefits or remuneration except as explicitly set forth herein, nor are you entitled to participate in any plans or other retirement program(s) that are available to COS employees.

### Term

The term of this agreement shall be one year. You or COS may terminate this agreement immediately for cause or upon thirty days notice without cause. If the agreement is not so terminated, it shall automatically continue on a yearly basis without further action by either you or COS. Cause shall be defined and mean: 1. Your loss of Board Certification; 2. Your loss of your Connecticut Medical License and/or your loss of your DEA License; 3. Your inability to obtain appropriate malpractice insurance. You shall provide a copy of your policy to COS each year naming COS an additional insured, if permissible under the policy; 4. Any activity on your part, which, in the reasonable opinion of COS, adversely effects the reputation, professional standing, medical services provided to patients and the ability of COS or you to participate in any third party reimbursement program, including, but not limited to Medicare or any other third party health insurance payor; 5. The cessation of COS's MRI practice; 6. Your death.

### Miscellaneous

This agreement will be construed in accordance with the laws of the State of Connecticut. It is binding upon you, and your representatives and assigns, it represents the entire agreement reached between you and COS and completely and fully supercedes any other agreement(s), whether in writing or otherwise, which you may have had with COS.

If the above is acceptable please sign below. Thank you.



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**

(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**

(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**

(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**

(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**

(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILLIZAROV SURGERY

**RICHARD DIANA, M.D.**

(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**

(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**

(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**

(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**

(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**

(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**

(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**

(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**

(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**

(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**FREY M. DELOTT, D.P.M.**

(203) 882-3376

- LOWER LIMB SALVAGE
- FOOT SURGERY

### OFFICE LOCATIONS

GUILFORD (203) 453-6340  
HAMDEN (203) 407-3500  
MILFORD (203) 882-3373  
NEW HAVEN (203) 789-2211  
ORANGE (203) 795-4784  
WALLINGFORD (203) 265-1800

Connecticut Orthopaedic Specialists, P.C

*Glenn Elia* 6-5-06  
By: Glenn Elia

*Joseph A. Gagliardi*  
Joseph A. Gagliardi, MD

## CURRICULUM VITAE

### **PERSONAL DATA:**

Joseph Anthony Gagliardi  
DOB: May 20, 1959  
Place: New Haven, CT  
Citizenship: USA

### **EDUCATION:**

Yale University, BS, Psychobiology, 1978-82  
New York Medical College, Valhalla, NY, M.D., Medicine, 1982-86

### **TRAINEESHIP:**

Internship: St. Vincent's Medical Center, Bridgeport, CT, Transitional, 1986-87  
Residency: St. Vincent's Medical Center, Bridgeport, CT, Diagnostic Radiology, 1987-91  
Chief Resident, 1990-1991

### **LICENSURE:**

Connecticut #029458, 1988  
Hawaii #7589, 1991-1995  
DEA #BG2862374, 1989

### **MILITARY SERVICE:**

Active Duty US Army M.C., Tripler A.M.C., Honolulu, HI, 1991-1995

### **MEMBERSHIP IN PROFESSIONAL SOCIETIES:**

Radiological Society of North America  
Hawaii Radiologic Society 1991-1995  
American Roentgen Ray Society  
Connecticut Radiologic Society 1995-date  
Association of Program Directors in Radiology 2004-date

### **ACADEMIC APPOINTMENTS:**

Associate Clinical Professor, Department of Radiology, University of Hawaii, Manoa, 1992-present  
Assistant Clinical Professor, Department of Radiology, New York Presbyterian Healthcare, 1999-present  
Clinical Adjunct Associate Professor, Quinnipiac University School of Health Sciences, 2004-present

## **Attachment B**

03/29/2005 17:59 2032888411

PAGE 02/89

GE Healthcare

GE Healthcare

GE Healthcare Technologies  
3114 N. Grandview Blvd  
W-544  
Waukegan, WI 53188  
1-877-454-2184  
Fax 414-808-9630

### PURCHASE AGREEMENT

THE GENERAL ELECTRIC COMPANY, THROUGH IT'S business unit GE Healthcare Technologies, hereby offers to sell to:

Connecticut Orthopedic Services  
2408 Whitney Ave  
Hamden, CT 06518-3209

Attn: Mr Glenn Ellis 203-407-3500

and Connecticut Orthopedic Services agrees to purchase the following equipment according to the terms and conditions as set forth within the attached STANDARD CONDITION OF PURCHASE FOR GE HEALTHCARE TECHNOLOGIES GOLD XTEND PRODUCTS.

### DESCRIPTION OF EQUIPMENT:

Gold Xtend 1.0T Pre-owned MR/Octane MR System

Fixed Site Environment-MR System

GE Healthcare Consolidated Warranty Terms Do Not Apply to This product. This Product is covered By a 90 Day System Only Warranty (Excludes Magnet)

The Gold Xtend Pre-owned Signa 1.0T LX HiSpeed (23 wt/m-775R) MR System with Phased Array is a High Resolution Whole Body MR Imaging System with High Homogeneity Super Conducting Short Core Magnet Operating at 1.0 Tesla. The System is designed to be Installed in a Fixed Site Location.

#### Hardware:

- 1.0T LX HiSpeed Electronics
- LX Octane SGI Workstation
- New Patient Table
- Body Coil and Head Coil
- Phased Array
- 1.0T CX-Ki Actively Shielded Short Core Magnet (pre-owned)
- Reflex 30 Recon Module with 256 RAM
- New Color LCD Monitor
- New M18B7SP-1.0T CIL COIL - UFI
- New M18B7SD-1.0T SHOULDER COIL
- New M18B7HW-1.0T Waist Coil
- Dual Array Package
- New M18BSE 1.0T EXTREMITY COIL

#### Software:

- LX ScanTools 9.1-including Functool
- EchoPlus Software

#### Magnet

The CX-Ki Magnet Design Provides High Homogeneity Using GE Designed Superconductive Shim Coils.

Confidential

1

3/3/2005

T- not 20- Day maintenance

03/29/2005 17:59 2032888411

PAGE 03/09

GE Healthcare

GMI 2000

GE Healthcare Technologies  
 3114 N. Grandview Blvd  
 W-544  
 Waukesha, WI 53188  
 1-877-454-2184  
 Fax 414-908-8830

The Superconductive Shie Coils Improve System Stability to Ensure Excellent Imaging Performance for Whole Body Applications. The Superconducting CX100 is a High Homogeneity Magnet Design Manufactured by GE Utilizing Advanced H<sub>2</sub> Cryocooling Technology. Fast Dynamic Shimming System Enclosures

The LX Highspeed Magnet Enclosures are designed to Maximize Patient Comfort. An Asymmetrical GE Logo Featured on the Front of the Scanner Helps Ease Patient Anxiety. The Wide Open Enclosures Provide a Dual View Patient Friendly Short Bore Appearance. The Flared Opening to the Bore is Inviting, and Effective in Increasing Productivity with Fewer Interrupted Studies Due to Patient Anxiety.

The Enclosure Design Enables the Following:

- Enables Patients to See Inside the Magnet During Many Types of Applications
- Offers better Access to the Patient by the Operator
- Provides a 60 Centimeter Patient Cylindrical Aperture-Opening
- Patient Bore is (L x W x H)  
70 Centimeters x 60 Centimeters x 60 Centimeters
- Patient Positioning Features:
  - Laser Alignment Lights
  - Axial, Sagittal, Coronal Reference Planes
  - Dual Table Control Panels

#### Patient Comfort Module

The Patient Comfort Module Offers the Following:

- Dual View Patient Bore
- Two-Way In Bore Intercom System
- In Bore Fiber Track Lighting System
- In Bore Patient Ventilation System
- Head Coil Mirror

#### LX Computer Subsystem

- Intuitive Workstation-Based Operator Console Provides the User for Both Optimum Productivity and High Performance. Large Screen User Interface for Controlling Scan Acquisition Easily, with Virtually All Parameters Available at a Glance from a Single Screen.
- Operating Platform is the High Performance

Confidential

2

3/3/2005

03/29/2005 17:59 2032688411

PAGE 04/09

GE Healthcare

COM 10/04

GE Healthcare Technologies  
 3114 N. Grandview Blvd  
 W-544  
 Waukegan, WI 53188  
 1-877-454-2184  
 Fax 414-806-9830

Silicon Graphics, Inc. Workstation. The SGI Processor incorporates 64 bit Technology with 32MB CPU Memory. Post Processing is provided with Silicon Graphics IRIX Graphics Engine.

- A Unique Design with Multiple Processors Provides Dedicated Processing for a True Multi-Tasking Operating Environment to Maximize Productivity
- Data Storage is Fast and Easy with Dual High Density 4.5GB Hard Drives, Each of which Allow for Up to 20,000 (256 x 256) Image Capacity for High Speed On-line Storage of a Large Number of Patient Data Files.
- Data Archive is provided by a Magneto-Optical Disk Drive Standard MOD Drive that is UNIFORM 3.0 Compatible.
- Users can Also be Selected and Networked Between LX and Any Imaging System or Hardware Supporting the DICOM 3.0 Protocol for Point-to-Point Send, Receive, and Pull/Query.
- Display Console is an 18 Inch High Resolution 1280 x 1024 LCD Flat Panel Monitor.
- A Pathfinder Personal Computer is Provided for Gating and Respiratory Waveform displays on the 18" Color Display Monitor.

#### Array Processor

- ReFlex 50 Reconstruction Module is Scalable and Provides Single 1860Hz for High Speed Image Data Reconstruction. System Provides 256MB (RAM) Bulk Array Memory for High Speed Reconstruction of Image Data Sets. Simultaneous Capabilities of All System Functions Provided by Distributed Computer Processor Architecture including Simultaneous Scan and Reconstruction.

#### LX Gradient Technology

- The Sigma Horizon LX Gradient Subsystem Provides Excellent Performance for Both High Spatial and Temporal Resolution Acquisitions. The Sigma Horizon LX System Provides Small Field of View and Thin Slice Acquisitions for both 2D and 3D Imaging

Confidential

3

3/3/2005

03/29/2005 17:59 2032888411

PAGE 05/09

GE Healthcare

Confidential

GE Healthcare Technologies  
3114 N. Grandview Blvd  
W-844  
Waukegan, WI 53188  
1-877-454-2134  
Fax 414-908-5630

Volume. The Slow Rate Performance Provides Short TR's and TE's to Maximize Contrast and Signal to Noise Ratios For a Wide Range of Applications. The Signa Horizon LX Utilizes a Unique Integrated Body Module which Combines Both Gradient and RF Body Coils Into a Single Module. This Module is Epoxy-Filled and Water-cooled for Maximum Performance.

The Unique Signa Horizon LX System with RF Gradient Technology Provides a High Performance Gradient System Combined With SpaceSaver Technologies. The System Allows for High Performance Imaging Capabilities All From a Single Cabinet.  
Radio Frequency Subsystem

- Digital Transceivers Including Digital Pulse Controller, Digital RF Signal Generator, Digital RF Receiver, and Digital RF Filter, and Ultra Low Noise Pre-Amplifier Provide Superior SNR for High Resolution Imaging.

- Quadrature Transmit/Receive RF Body Coil is Combined Into Integrated Body Module Which Combines RF and Gradients Coils Technology Into a Single Module. The 50cm Diameter High Pass Quadrature RF Body Coil Provides High SNR with a Patient Friendly Aperture.

- The Large Open Quadrature Transmit/Receive RF Head Coil is 38cm in Diameter and Provides Excellent SNR.

- Unique Ultra-Low Noise Pre-Amplifier Design Minimizes Noise Levels to Ensure Excellent SNR for all Surface Coil Imaging.

#### Signa LX Patient Table

- Dockable Patient Table is Designed to be Undocked/Removed From the Magnet to Provide Patient Transportation and Patient Preparation Outside the Exam Room and Maximize Patient Comfort. The Patient Table is designed to Accommodate Patient Weight Up To a Maximum 350 Pounds.

- Quick Release Patient Cradle is Designed to Allow Operator to Quickly Remove Patient From the System in Emergency Situations.

- Continuously Variable Table Height From 26 Inches to 38 Inches Allows for Easy Patient Transfer From Wheelchairs or Transport Carts.

Confidential

4

3/3/2005

03/29/2005 17:59 2032888411

PAGE 06/09

GE Healthcare

GE World

GE Healthcare Technologies  
3114 N. Grandview Blvd  
W-544  
Waukesha, WI 53188  
1-877-454-2184  
Fax 414-808-6630

- \* Integral Patient Gantry Rails Double as IV Injector Board and Arm Support to Permit Easy Patient Handling and Preparation.
- \* Motorized Longitudinal Cradle Movement Allows for Easy, Reproducible Patient Positioning.
- \* Precision Alignment Lights Integrated into Magnet Enclosure Allow for Accurate Patient Positioning.

#### ScanTools Package

Includes the LX Operating System Software, Spin Echo, Gradient Echo, Inversion Recovery, Fast Spin Echo, Single-Shot Fast Spin Echo, Fast Gradient Echo, OF, FC, Cine, Fast Flair MRI, IVI, 3D Surface Rendering, and Clariview.

1

#### DICOM

Scans can also be selected and networked between Signa MR/i and any Imaging System or Hardware supporting the DICOM 3.0 Protocol for Point-to-Point Send, Receive, and Pull/Query and DICOM Print (No Broadcast).

- \* DICOM 3.0 Storage Service Class
- \* Services Class User (SCU) for Image Send
- \* Services Class Provider (SCP) for Image Receive
- \* DICOM 3.0 Query/Retrieve Service Class
- \* DICOM 3.0 2.605/5.200 WOD Media Service Class
- \* DICOM 3.0 Print Service Class

#### Services

- \* The Signa Horizon LX System is the Easiest High Performance System to Site in all Locations. GE's Installation Team May Provide Siting Requirements and Recommendations to Enhance the Performance of Your MR Suite.
- \* The Signa Horizon LX System Combines Maximum Performance with Ease of Service. Maintenance is provided by Highly Trained and Skilled GE Service Engineering Team.
- \* A GE Service Contract will Offer Uncompromised Quality and Fast-Setting Technology Like GE Online Services.

Confidential

5

3/3/2005

03/29/2005 17:59 2032988411

PAGE 87/89

GE Healthcare

Gold Xtend

GE Healthcare Technologies  
3114 N. Grandview Blvd  
W-544  
Waukegan, WI 53188  
1-877-454-2184  
Fax 414-608-8630

InSite Online Offers You Proven, Remote diagnostics which Improve Productivity and Minimize Downtime.

• GE Offers a Combination of Off-Site and On-Site Training Sessions to Meet Your Clinical Needs. Site Specific Application Training Programs can be Proposed to Meet Your Specific Site Needs. Please Set Your GE Sales Representative for Details.

• Application Support Hotline  
1-800-682-5327, 7:30am - 6:00pm Central Time GE Medical Systems TIR Applications Answer Line Provides you with an Application Specialist and TIR TV or Educational Assistance.

**Warranty**

The Gold Xtend 1.0T HiSpeed MR System is provided with a 30 day Warranty (from first availability for patient use) not including Magnet Maintenance and Cryogenics.

**PAYMENT TERMS: \$349,000.00**

The purchase price of the Equipment is \$349,000.00 which buyer is to secure with an initial 10% deposit of \$ 34,900.00 and agrees to pay 70% \$ 244,300.00 due on shipment and the remaining balance of \$69,800.00 on installation completion. Cashiers Check will NOT be accepted as form of payment.

ACCEPTANCE: GE HEALTHCARE and BUYER have carefully read the STANDARD CONDITIONS OF PURCHASE FOR GE HEALTHCARE TECHNOLOGIES GOLD XTEND PRODUCTS. Signature below by both parties constitutes a binding purchase agreement according to all its terms and conditions.

GE

*Tammy Garcia*

Name:

*Tammy Garcia*

Title:

*GM, Phy, Office Manager*

Date:

*3/30/05*

Signature:

*Tammy Garcia*

BUYER

Name:

*JOHN ELIA*

Title:

*CEO*

Date:

*3/29/05*

Signature:

*John Elia*

Confidential

6

3/3/2005

CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.  
2408 WHITNEY AVENUE  
HAMDEN, CONNECTICUT 06518

New Alliance Bank  
CONNECTICUT

517013  
21000  
CHECK NO. 083855

4414191

03/29/05 12:35 PM  
DATE  
AMOUNT \$5,825.00

03/29/05 083855

PAY TO THE ORDER OF  
CHECKS

*Thomas C. ...*  
AUTHORIZED SIGNATURE

"083855" "2111701301 0571104855" "0000582500"

483345259 0050 0058 00 04-07-05

0407280E  
0111-0048-1  
FNY=1855 YPC=1888 PR=17  
0620949556

REC'D BY  
MR. J. P. ...

650670752

70310000830  
THE 8000 THICK PAPER  
0402005 P/19 1420

54475  
541419  
001064315  
103918 200

## **Attachment C**

## Connecticut (



\* 2 3 5 2 3 3 - 5 \*

Reagan, John - Patient Info Sheets

33

16

## PATIENT INFORMATION - Please Print - A

Patient's First Name John Middle Initial [REDACTED] Last [REDACTED] ☒ Male ☐ Female  
 Home Address [REDACTED] Street [REDACTED] Apt # [REDACTED] City Wallingford State CT Zip Code 06492  
 Mailing Address [REDACTED] (If different from above)  
 Home Phone # [REDACTED] Work Phone # [REDACTED] Social Security # [REDACTED]  
 Age [REDACTED] Date of Birth [REDACTED] Place of Birth Wareham MA  
 Spouse's Name [REDACTED] Spouse's Social Security # 7 Spouse's Work Phone # [REDACTED]  
 Father's Name if Patient is a minor [REDACTED] Father's Social Security # [REDACTED] Father's Employer Name/Phone # [REDACTED]  
 Mother's Name if Patient is a minor [REDACTED] Mother's Social Security # [REDACTED] Mother's Employer Name/Phone # [REDACTED]  
 Whom we may contact in case of emergency [REDACTED] Relationship spouse  
 Emergency Phone # [REDACTED] Phone # of nearest relative/friend not living with you [REDACTED]  
 Name of nearest relative/friend not living with you [REDACTED]  
 Name of current Primary Care Physician [REDACTED] Phone # 7 Meriden  
 Patient's Occupation engineer  
 Employer [REDACTED]  
 Employer address [REDACTED] Street [REDACTED] City [REDACTED] State [REDACTED] Zip Code [REDACTED]

PATIENT STATUS	
<input checked="" type="checkbox"/> Employed	<input type="checkbox"/> Single
<input type="checkbox"/> Part-time	<input type="checkbox"/> Married
<input type="checkbox"/> Full-time student	<input type="checkbox"/> Divorced
	<input type="checkbox"/> Widowed

## INSURANCE / BILLING INFORMATION

Primary Insurance Co. Aetna Policy/ID # [REDACTED] Group [REDACTED]  
 Subscriber's Name Self Subscriber's Employer [REDACTED] Phone # [REDACTED]  
 Subscriber's Social Security # [REDACTED] Subscriber's Date of Birth [REDACTED]  
 Patient's Relationship to Subscriber: ☒ Self ☐ Spouse ☐ Child ☐ Other - Explain [REDACTED]  
 Subscriber's Address [REDACTED] (If different from patient's) Wallingford CT 06492  
 Secondary Insurance Co. [REDACTED] Policy/ID # [REDACTED] Group # NO  
 Subscriber's Name [REDACTED] Subscriber's Employer [REDACTED] Phone # Card  
 Subscriber's Social Security # [REDACTED] Subscriber's Date of Birth With him  
 Patient's Relationship to Subscriber: ☐ Self ☐ Spouse ☐ Child ☐ Other - Explain [REDACTED]  
 Subscriber's Address [REDACTED] (If different from patient's)  
 Attorney's Name [REDACTED] (Only if applicable) Name & Address [REDACTED] Phone # [REDACTED]

## INSURANCE INFORMATION AND ASSIGNMENT

I hereby authorize Connecticut Orthopaedic Specialists, P.C. to furnish information concerning my illness and treatments to insurance carriers and any other payors required to process charges. I hereby assign to the physician(s) all payments for medical services rendered to myself or my dependents. I UNDERSTAND THAT I AM RESPONSIBLE FOR ANY AMOUNT NOT COVERED BY INSURANCE. I HEREBY AGREE TO PAY A SERVICE CHARGE OF \$25.00 TO CONNECTICUT ORTHOPAEDIC SPECIALISTS IN THE EVENT I PROVIDE A PERSONAL CHECK WHICH IS NOT HONORED BY MY BANK AND RETURNED TO CONNECTICUT ORTHOPAEDIC SPECIALISTS AND LABELED "INSUFFICIENT FUNDS."

Signature [REDACTED] Date 10/29/06



\* 2 3 5 2 3 3 - 3 \*

Reagan John - Radiology Studies

# Patient Screening and History Form

12/19/2006

Patient Name: [REDACTED] Physician: \_\_\_\_\_

Account: [REDACTED] DOB: 11-17-1954

Requesting Exam Type: Knee

Please indicate if you have any of the following.

Yes	No		Yes	No
<input type="checkbox"/>	<input type="checkbox"/>	Cardiac Pacemaker	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Implanted Cardiac Defibrillator	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Cochlea Implants	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Other Ear Implants	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Aneurysm Clips, Brain	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Any Type of Pacing Wires	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Heart Valve Prosthesis	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Any Type of Vascular Coil, Implant, Stint	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	IVC Filter	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Swans-Ganz Catheter	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Venous Access Device (VAD)	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Shunts	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Implanted Drug Infusion Device	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Implanted Insulin Pump	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Any Type of Electronic, Mechanical, Magnetic Implant	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Any Type of Biostimulator	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Any Type of Implant Held in Place By a Magnet	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Surgical Staples and Clips	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Wire Mesh / Metal Mesh	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	Have you had any Metal in your Eye(s) at any time?	<input type="checkbox"/>	<input type="checkbox"/>
		Have you ever been a metal worker?	<input type="checkbox"/>	<input type="checkbox"/>
		If yes, did you wear Safety Glasses?	<input type="checkbox"/>	<input type="checkbox"/>
		Orbit / Eye Prosthesis	<input type="checkbox"/>	<input type="checkbox"/>
		Joint Replacements	<input type="checkbox"/>	<input type="checkbox"/>
		Bone of Joint Pins	<input type="checkbox"/>	<input type="checkbox"/>
		Artificial Limb or Joint	<input type="checkbox"/>	<input type="checkbox"/>
		Foreign Body, Shrapnel, Bullet	<input type="checkbox"/>	<input type="checkbox"/>
		Ear Implant	<input type="checkbox"/>	<input type="checkbox"/>
		Hearing Aid	<input type="checkbox"/>	<input type="checkbox"/>
		IUD	<input type="checkbox"/>	<input type="checkbox"/>
		Pessary	<input type="checkbox"/>	<input type="checkbox"/>
		Penile Prosthesis	<input type="checkbox"/>	<input type="checkbox"/>
		Breast Expanders	<input type="checkbox"/>	<input type="checkbox"/>
		Dentures	<input type="checkbox"/>	<input type="checkbox"/>
		Tattooed Eyeliner	<input type="checkbox"/>	<input type="checkbox"/>
		Any Chance of Pregnancy	<input type="checkbox"/>	<input type="checkbox"/>
		Currently Breast Feeding	<input type="checkbox"/>	<input type="checkbox"/>
		Surgery in the Past 2 Weeks	<input type="checkbox"/>	<input type="checkbox"/>
		Previous X-Rays of Related Area	<input type="checkbox"/>	<input type="checkbox"/>
		Previous MRI	<input type="checkbox"/>	<input type="checkbox"/>
		What Type: _____		
		Where: _____		
		When: _____		

Medications:

Allergies / Allergies to Medications

All Surgeries and their Dates:

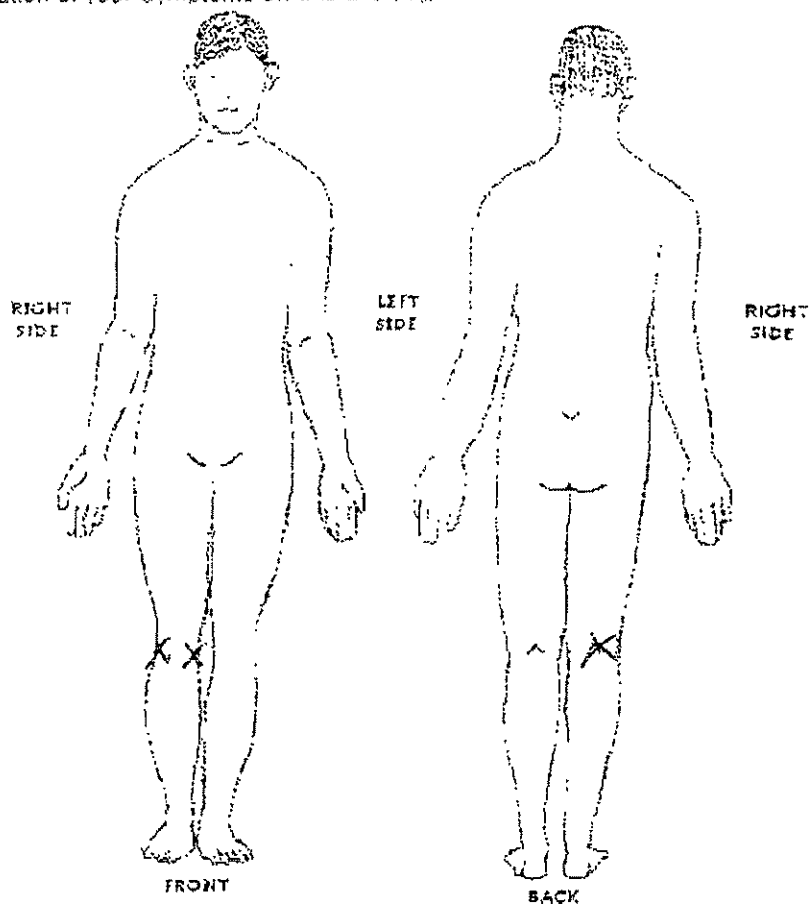
Patient Signature: \_\_\_\_\_

If patient is unable to sign, signature of person completing form

Signature: \_\_\_\_\_ Relationship to Patient: self

**Medical History and Symptoms**

Describe the Location of your Symptoms on this Drawing

**For Gadolinium Injection Use:**

Sickle Cell Anemia

☐ Yes☐ No

Renal Dysfunction

☐ Yes☐ No

Creatine \_\_\_\_\_ Date: \_\_\_\_\_

Type of Contrast Injected: \_\_\_\_\_

Comments: \_\_\_\_\_

Amount: \_\_\_\_\_

Drug Lot #: \_\_\_\_\_

Expiration Date \_\_\_\_\_

Signature: \_\_\_\_\_

Injection Site: \_\_\_\_\_

MRI Technologist: \_\_\_\_\_

Date: \_\_\_\_\_

Patient Coordinator: \_\_\_\_\_

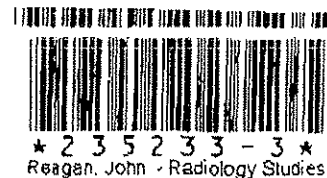
Date: \_\_\_\_\_

Radiologist: \_\_\_\_\_

Date: \_\_\_\_\_



## Knee Evaluation



Last Name

52 Years

Age

John

First Name

Date

## THESE QUESTIONS APPLY ONLY TO THE AREA BEING SCANNED TODAY

What was your chief complaint when you visited your doctor? Pain R Knee front + backWhat do you think caused your problem? Injury to L Knee + was favoring R L Knee. R Knee began to hurt since Apr '06What does your doctor think is causing your problem? ? MMTDescribe your pain: Share pain in front + pain behind knee, poppingDoes anything make it worse? rest + kneelingDoes anything make it better? rest, elevatingDo you have any weakness? no Where?

Have you had any surgery to the area being scanned today?

When?

What was done?

Have you ever Broken any bones in your knee area?

Do you have arthritis in any of your joints? ?

Do you have any other medical conditions?

Are you taking any medications? - What Kind? -Describe your general health: -



**Connecticut Orthopaedic Specialists, P.C.**  
 2408 Whitney Avenue, Hamden, CT 06518  
**WWW.CT-ORTHO.COM** Main # (203) 407-3500  
 Billing # (203) 407-3560 Fax # (203) 281-1164



\* 2 3 5 2 3 3 - 3 \*

## Diagnostic Imaging Booking Sheet

12/19/2006

Test Site	MRI Phone	MRI Fax	CT Scan Phone	CT Scan Fax
COS Branford MRI	483-2518	483-2522		
COS MRI	407-3538	248-8247		
DRA:	389-9911	389-6977		
Madison Radiology	453-3996	453-5637		
Mid-State:	694-8459	694-7631		
Milford Hospital:	876-4615	876-4512	876-4252	
Milford Open MRI	878-2341	876-4539		
NVRA - Prospect	758-7700	758-7877		
Open MRI	891-1690	891-1693		
St. Mary's Hospital	709 3674	709-3677		
St Raphael's	789-4120	789-5183	789-4312	789-4205
St Vincent's	576-5750	576-5934	576-5380	
Temple Radiology	453-7200	688-3188		
Temple Radiology New Haven	688-4444	688-3188	688-4444	
Waterbury Hospital	573-7674	573-6255		
Whitney Imaging	288-3068	288-3124		
Yale New Haven:	688-4270	688-3572	688-2358	

## PATIENT INFORMATION

Name: [REDACTED] Acct: 235233  
 Address: [REDACTED] City: WALLINGFORD  
 Home Phone: [REDACTED] Work: [REDACTED]  
 Insurance: Aetna ID#: BBK0XL5A  
 Auth#: NA Name: [REDACTED]  
 DOB: 11-17-1964 Weight: [REDACTED]  
 Do you have a Pacemaker? ☐ Yes ☐ No Swan-Ganz Catheter? ☐ Yes ☐ No  
 Prior Surgery? ☐ Yes ☐ No Metal Exposure? ☐ Yes ☐ No Claustrophobic? ☐ Yes ☐ No  
 Imaging: MRI DX: pain  
 Body Part: R Knee R/O: men  
 Date: 6/30/06 Time: 1pm  
 F/U: [REDACTED] Time: [REDACTED]

Please fax report to the appropriate office:

- |  |  |
|--|--|
| <input type="checkbox"/> BRANFORD FAX: (203) 483-2513    | <input type="checkbox"/> HAMDEN FAX: (203) 281-1164    |
| <input type="checkbox"/> CHESHIRE FAX: (203) 272-3151    | <input type="checkbox"/> MILFORD FAX: (203) 882-3372   |
| <input type="checkbox"/> GUILFORD FAX: (203) 458-9717    | <input type="checkbox"/> NEW HAVEN FAX: (203) 782-2180 |
| <input type="checkbox"/> HAMDEN FAX: (203) 407-4244      | <input type="checkbox"/> ORANGE FAX: (203) 799-1179    |
| <input type="checkbox"/> WALLINGFORD FAX: (203) 284-9010 |  |

\*\*\*SEND MRI FILMS WITH PATIENT\*\*\*

Doctor's Name

Doctor's Signature

Date

# CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

## MRI DEPARTMENT

84 NORTH MAIN STREET, BRANFORD, CT 06405

BILLING #: (203) 407-3560

MAIN #: (203) 483-2518

WWW.CT-ORTHO.COM

FAX #: (203) 483-2522



### MAGNETIC RESONANCE IMAGING REPORT

PATIENT NAME [REDACTED], John	ACCOUNT NUMBER [REDACTED]	DATE OF BIRTH [REDACTED]	SEX Male
Referring Doctor:			
Exam: Right Knee MRI			
Date: 6/30/2006			

**Clinical History:** Right knee pain following recent injury. Evaluate for medial meniscus tear.

Axial, sagittal and coronal imaging of the right knee using standard pulse sequences on a one Tesla magnet was performed.

**Findings:** No significant joint effusion is present however a small Baker's cyst measuring 5 mm x 2 cm is present. The patella cartilage is unremarkable.

The quadriceps and patellar tendon as well as the ACL and PCL are visualized and appear intact.

The medial collateral ligament and lateral collateral ligament complex is intact. Blunting at the tip with high signal extending to the surface is present in the posterior horn of the medial meniscus. The lateral meniscus is unremarkable.

**Impression:** Medial meniscus tear with small Baker's cyst.

Joseph Gagliardi, M.D.

JG/ah

## **Attachment D**

GE Healthcare



SHIP TO:  
CONNECTICUT ORTHOPEDIC SPEC  
84 N MAIN ST  
BRANFORD CT 06405  
UNITED STATES

INVOICE NUMBER: 500104573  
INVOICE DATE : 17-DEC-05  
CUSTOMER ACCT : 292963  
GE SALES ORDER : 2571314  
GE SERVICE LOC : 024043

REMIT TO:  
G.E. MEDICAL SYSTEMS  
P.O.Box 640944  
PITTSBURGH PA 15264-0944  
United States

AMOUNT DUE : (US Dollar)  
USD 34,900.00

SOLD TO:  
CONNECTICUT ORTHOPEDIC  
ACCOUNTS PAYABLE  
2200 WHITNEY AVE SUITE 310  
HAMDEN,CT 06518  
UNITED STATES

Page 1 Of 1

To ensure proper credit - Detach and return above portion with your remittance

Please do not staple or fold

PURCHASE ORDER: GOLDSEAL EXTEND 3/29/05	INVOICE NUMBER: 500104573	INVOICE DATE: 17-DEC-05	AMOUNT DUE: USD 34,900.00
TRANSPORTATION: CIF	BILLING TERMS: 10% down / 70% delivery / 20% install		DATE SHIPPED:

QTY	GE IDENTIFIER	DESCRIPTION	TOTAL EXTENDED NET SELLING PRICE	EXTENDED AMOUNT DUE
1	J1200EA	<p>Invoice for total amounts due at Order(S - 1). This invoice is Due and Payable</p> <p>PO# GOLDSEAL EXTEND 3/29/05</p> <p>GOLDXTEND 1.0T LX HISPEED</p>		
		TOTAL BILLING	USD 349,000.00	

Include This Invoice Number For Proper Credit: 500104573  
Internal Use Only eqprmi9601hq

Tax: USD 0.00  
Total Amount Billed: USD 34,900.00

Direct Questions On this Invoice to:  
Contact: GE Healthcare  
T #: 1-800-581-5600

# MASTER LEASE SCHEDULE

By and Between

Popular Leasing U.S.A., Inc.

and

Connecticut Orthopaedic Specialists, P.C.

Master Lease Schedule Number: 47494.02

This MASTER LEASE SCHEDULE NUMBER 49494.02 ("Lease") is by and between Popular Leasing U.S.A., Inc., ("Lessor") and Connecticut Orthopaedic Specialists, P.C. ("Lessee") and incorporates the terms and conditions of that certain Master Lease Agreement dated as of July 7, 2004 between Lessor and Lessee ("Master Lease"). Lessor hereby leases to Lessee and Lessee hereby leases from Lessor the following described items of Equipment and/or Software for the Lease Term and on terms and conditions set forth herein. The Lease shall become effective as against Lessor upon Lessor's execution hereof.

**EQUIPMENT DESCRIPTION:** See Schedule A, Attached Hereto And Forming A Part Hereof.

**AGGREGATE ACQUISITION AMOUNT:** \$349,000.00

**EQUIPMENT LOCATION:** 84 N. Main Street, Branford, Connecticut 06405

**BILLING ADDRESS:** 2408 Whitney Avenue, Hamden, Connecticut 06518

**II. LEASE TERM:** The Lease shall commence on the day that Lessee executes a Delivery and Acceptance Certificate with respect to the Equipment ("Commencement Date"). The Base Lease Term of the Lease shall be for the term indicated below and shall commence on the thirtieth day in the calendar month of the Commencement Date ("Base Term Commencement Date").

**BASE LEASE TERM:** Sixty-Three (63) months

## III. LEASE PAYMENTS:

(a) Base Term Rent consists of the following monthly payments:

☐ Indicated by an "X" if in arrears


<u>Month(s)</u>	<u>Amount</u>
1-3	\$0.00
4-63	\$7,163.50
	plus applicable tax

The first installment of Base Term Rent shall be due and payable upon the earlier of (i) the date specified in Lessor's invoice therefor, or (ii) the Base Term Commencement Date.

(b) Interim Rent is due and payable in full on the date specified in Lessor's invoice(s) therefor and shall be computed by dividing one payment of Base Term Rent by thirty (30) and multiplying the result by the number of days from and including the Commencement Date to the day preceding the Base Term Commencement Date.

(c) On or before the Commencement Date, Lessee shall pay Lessor an amount equal to \$7,943.31 ("Advance Payment"). The Advance Payment, including taxes and documentation fee, shall be applied to Lessee's first and sixty-third Base Term Rent Payment, with any balance to be applied to subsequent Base Term Rent payments.

Lessee Initials:




**IV. LEASE END OPTIONS:** The following LEASE END OPTIONS shall apply as indicated by an "X".

- [X] Provided no Event of Default shall have occurred and remain uncured, Lessee may upon the expiration of the Base Lease Term exercise any one of the following options with respect to not less than all items of Equipment and Software comprising the Equipment being leased hereunder, (i) return the Equipment to Lessor, (ii) extend the Lease Term at the then fair rental value ("Fair Rental Value") for an extension term the length of which shall be determined by agreement between Lessee and Lessor or (iii) purchase the Equipment for a cash price equal to **\$1.00** ("Cash Price"). Lessee agrees to provide Lessor with written notice of Lessee's decision not less than 90 days prior to the expiration of the Base Lease Term. If Lessee fails to give Lessor 90 days prior written notice, Lessee shall be deemed to have elected (iii) above. Upon receipt of Lessee's notice of termination and prior to the return of the Equipment, Lessor shall be entitled to expose the Equipment for resale or lease at the Lessee's premises during reasonable business hours (so long as such exposure does not unreasonably interfere with Lessee's business operations). If by proper notice Lessee elects to purchase the Equipment and upon receipt by Lessor of the Cash Price and all other sums due hereunder, Lessor shall: (i) convey title to the Equipment to Lessee free of liens and encumbrances created by Lessor on an *as-is, where-is* basis and without warranty; (ii) and permit Lessee to continue to use the Software in accordance with the applicable License Agreement. Fair Rental Value shall mean an amount which would obtain in a transaction between an informed and willing lessee (other than a dealer) and an informed and willing lessor (assuming for this purpose that the Equipment shall have been maintained in accordance with this Lease and taking into consideration the in-place value of the Equipment to Lessee) and will be determined by agreement between Lessor and Lessee.

**V. INDEX RATE:** The Lease Payments set forth in Section III hereof are based upon five (5) year United States Treasury obligations, which had an annual yield to maturity of 3.47 % (Index Rate). Lessor reserves the right to adjust the Lease Payments to reflect any changes in the Index Rate as of the Commencement Date.

**VI. PROGRESS PAYMENTS:** Provided no Event of Default has occurred and remains uncured under the Master Lease or this Lease, and Lessor has received such documentation and/or other items as Lessor may at its discretion require, Lessor agrees to make certain payment(s) on behalf of Lessee (each, an "Advance") which shall be repaid to Lessor upon demand and no later than 90 days after the date hereof. Lessee has entered into a purchase order and/or other documents relating to the Equipment being financed pursuant to this Lease (collectively, "Purchase Documents") with Vendor. In consideration for Lessor's making the Advances, Lessee assigns to Lessor all of its rights and interests in the Equipment and the Purchase Documents, but none of Lessee's obligations. Lessee and Lessor agree that:

- (a) **ON DEMAND, FOR VALUE RECEIVED, LESSEE HEREBY UNCONDITIONALLY PROMISES TO PAY** to the order of Lessor the principal sum of \$349,000.00 or, if less, the aggregate unpaid principal amount of all advances ("Advances") in payment or partial payment by Lessor to a supplier or manufacturer of the Equipment, together with any accrued but unpaid interest on any and all principal amounts remaining unpaid hereunder from time to time. Interest shall accrue on each Advance at an annual interest rate equal to the Prime Rate, as reported from time to time in the Money Rate Section of The Wall Street Journal, plus two percent (2%) ("Progress Payment Rate") from the date of such Advance until the earlier of the repayment in full thereof or the Commencement Date. Any amount of principal which is not paid when due shall bear interest from the day when due until paid in full at a monthly interest rate equal to the lesser of: (i) one and one half percent (1.5%) or (ii) the highest rate legally permissible. If a court of competent jurisdiction shall determine that Lessor has received interest hereunder in excess of the highest permissible rate, Lessor shall promptly refund such excess interest to the Lessee and this Lease shall be automatically modified to the extent necessary to comply with the applicable laws. Presentment, protest and notice of nonpayment are hereby waived by the Lessee. Both principal and interest are payable in immediately available and lawful money of the United States of America to Lessor at the address set forth above, or to such other address or entity as Lessor may direct in writing. All Advances made by Lessor and all payments made on account of principal hereof shall be recorded by Lessor and, upon the Lessee's request, Lessor shall provide the Lessee with a statement showing all such Advances and payments. The Advances and accrued interest thereon shall become due and payable upon the earliest of: (i) demand by Lessor (ii) 90 days after the date hereof or (iii) the Commencement Date, provided no default has occurred and remains uncured. Lessor shall finance the sum of all advances over the term of this Schedule when such payments become due and payable, hereunder. The Lessee authorizes Lessor to include any unpaid principal (to the extent not otherwise already included) and any unpaid interest hereunder in the cost of the Equipment financed by Lessor and to increase the Lease Payments under the Lease proportionately to reflect the increased cost of the Equipment.

Lessee Initials: 

(b) Lessee has no interest in or right to any Advance made by Lessor to Vendor, and if any Advance moneys are returned or refunded to Lessee by Vendor, Lessee agrees to hold such moneys in trust for Lessor and to immediately forward such moneys to Lessor. If the transaction contemplated by this Lease is deemed to be other than a true lease, then to secure payment and performance of Lessee's obligations under this Lease, Lessee grants to Lessor a security interest in the System and all attachments, accessories, additions, substitutions, products, replacements and rentals and proceeds therefrom (including insurance proceeds).

(c) If the Equipment is not manufactured and delivered as required by the Purchase Documents or is not properly installed, does not operate as represented or warranted by Vendor, or is unsatisfactory for any reason, Lessee shall make all claims pertaining thereto solely against Vendor and shall, nevertheless, pay Lessor all amounts due under this Lease. Lessor shall have no liability to Lessee or any third party for any direct, indirect, special or consequential damages arising out of this Agreement or concerning the Equipment. This Lease cannot be canceled or terminated by Lessee, and Lessee has an unconditional obligation to pay all amounts required under the terms of this Lease when they are due; Lessee is not entitled to abate or reduce the amounts due or to set off any charges against those amounts; Lessee is not entitled to recoupment(s), cross-claim(s), counterclaim(s) or any other defense(s) to the amounts due, whether such matters arise out of claims by Lessee against Lessor, Vendor or otherwise. Lessor may require payment in full of the Advances and accrued interest at any time, and upon the occurrence of an Event of Default, Lessor may, without limitation, apply any advance rentals under the Lease to the Lessee's repayment obligation hereunder.

#### VII. ADDITIONAL PROVISIONS:

LESSEE: Connecticut Orthopaedic Specialists, P.C. LESSOR: Popular Leasing U.S.A., Inc.

By: [Signature]  
Print Name: Michael J Loubo  
Title: COO/OWNER  
Date: 7/6/06

By: [Signature]  
Print Name: Phyllis Hardcastle  
Title: Vice Pres  
Date: 7/6/06

Lease #: 47494.02

(to be completed by Lessor when known)  
Commencement Date: 7/6/06 Base Term Commencement Date: 7/30/06

**SCHEDULE A**

**Vendor:** General Electric Company (through it's business unit GE Healthcare Technologies)  
3114 N. Grandview Blvd.  
W-544  
Waukesha, WI 53188

**Equipment Description:** (1) Preowned Gold Xtend Signa 1.0T LX HiSpeed MR/Octane High Resolution Whole Body MR Imaging System (Year of Manufacture: 2003)

**System Includes:**

➤ **Hardware**

- 1.0T LX HiSpeed Electronics
- LX Octane SGI Workstation
- New Patient Table
- Body Coil and Head Coil
- Phased Array
- 1.0T CX-K4 Actively Shielded Short Bore Magnet (pre-owned)
- Reflex 50 Recon Module with 256 BAM
- New Color LCD Monitor
- New M1887SP-1.0T CTL Coil-UF1
- New M1887SD-1.0T Shoulder Coil
- New M1887HW-1.0T Wrist Coil
- Dual Array Package
- New M1885E 1.0T Extremity Coil

➤ **Software**

- LX ScanTools 9.1-including FuncTool
- EchoPlus Software

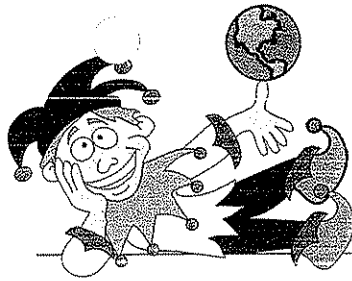
Lessee: Connecticut Orthopaedic Specialists, P.C.

By: ✓ Michael J. Longo

Print Name: Michael J. Longo

Title: ✓ Controller

Date: ✓ 2/6/06



# JESTER

---

DEVELOPMENT CO. L.L.C.

January 26, 2005

Mr. Glenn Elia, CEO  
**CONNECTICUT ORTHOPEDIC SPECIALIST**  
2408 Whitney Avenue  
Hamden, CT 06518

**RE: Branford Medical Center**

Dear Mr. Elia:

Pursuant to your request please find an additional cost break out as recently discussed for each Tenant/portion and or scope of work for the above referenced Project. As discussed, we will be invoicing for all portions of each scope of work under one invoice upon completion of the project and a certificate of occupancy for the building. Items are as follows:

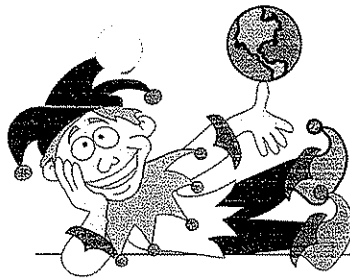
Structure & Site	\$4,754,740.00
Tenant 2 <sup>nd</sup> Floor	\$223,560.00 (allowance)
Connecticut Orthopedic Specialist	\$255,830.00
MRI Room	<u>\$47,870.00</u>
 Project Total	 \$5,282,000.00

Please notice the allowance for the second floor future tenant fit out, any additional costs exceeding the allowance for the second floor future tenant fit out will be paid for by the future second floor tenant.

If you have any question please do not hesitate to contact me as we look forward to a successful project.

Sincerely,

Steve Murdock  
Jester Development Co., LLC



**JESTER**  
DEVELOPMENT CO. L.L.C.

December 29, 2006

Mr. Glenn Elia, CEO  
**CONNECTICUT ORTHOPEDIC SPECIALIST**  
2408 Whitney Avenue  
Hamden, CT 06518

**RE: Branford Medical Center**

Dear Mr. Elia:

Pursuant to your request we have broken out the MRI Room costs for your review. As you are aware we had our own crews on site that handled completing the finishes in the room after the RF room was installed, which took only a few days. Costs as follows:

Walls & Ceiling	\$ 1,420.00
Electrical Work	\$ 6,700.00
HVAC & Plumbing	\$ 5,200.00
Finishes/Painting/Flooring	\$ 1,050.00
RF Room	\$33,000.00
Profit & Overhead	<u>\$ 500.00</u>

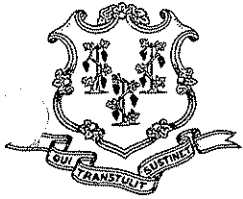
Total Costs	\$47,870.00
-------------	-------------

If you have any questions or require any additional information please do not hesitate to contact me.

Sincerely,

Steve Murdock  
Jester Development Co., LLC

Schedule of Values						
To:	COS					
	2408 Whitney Avenue, Branford, CT 06518					
From:	Jester Development Co., LLC					
	250 Sackett Point Road, North Haven, CT 06473					
ITEM NO.	DESCRIPTION OF WORK	1st FLOOR (COS) & SHELL COST	SHELL COST	COS COST	MRI	2nd FLOOR
1	General Conditions	449,500.00	429,000.00			
2	Site Work	939,840.00	939,840.00	20,000.00	500.00	
3	Concrete	180,000.00	180,000.00			
4	Masonry	80,000.00	80,000.00			
5	Metals	600,000.00	600,000.00			
6	Wood/Plastic	79,000.00	20,000.00	59,000.00		
7	Thermal/Moisture	200,000.00	200,000.00			
8	Doors & Windows	208,000.00	182,000.00	26,000.00		
9	Finishes	185,000.00	92,000.00	90,530.00	2,470.00	
10	Specialties	38,000.00		5,000.00	33,000.00	
11	Conveying	75,000.00	75,000.00			
12	Mechanical	400,800.00	390,600.00	5,000.00	5,200.00	
13	Electrical	198,300.00	176,300.00	15,300.00	6,700.00	
14	Project Management	425,000.00	390,000.00	35,000.00		
15	Land	1,000,000.00	1,000,000.00			
16	2nd Floor Fit Out Allowance	223,560.00				223,560.00
	Totals	5,282,000.00	4,754,740.00	255,830.00	47,870.00	223,560.00
	Change Order 1 (Sewer MH Rehab)	21,255.41	21,255.41			
	Additional 2nd Floor Cost (Covered By Saint Raphaels)	367,793.80				367,793.80
	TOTAL	5,671,049.21	4,775,995.41	255,830.00		591,353.80



M. JODI RELL  
GOVERNOR

STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

CRISTINE A. VOGEL  
COMMISSIONER

January 11, 2007

Mr. Glenn Elia  
Chief Executive Officer  
Connecticut Orthopaedic Specialists, P.C.  
2408 Whitney Avenue  
Hamden, CT 06518

RE: Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition of an MRI unit for 84 North Main Street Branford office location

Dear Mr. Elia:

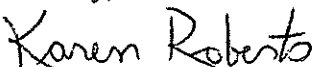
On January 8, 2007, the Office of Health Care Access ("OHCA") received your response to OHCA's December 11, 2006 inquiry regarding the above noted matter. OHCA staff has reviewed the January 8, 2007 response and finds that additional information and/or clarification is required, as outlined below:

1. Please complete and return the attached Affidavit.
2. Regarding the Purchase Agreement submitted as Attachment B, pages 02/09 through 07/09 had been submitted. Please provide pages 1, 8 and 9 of that document. Also provide any attachments to this document, such as the "STANDARD CONDITION OF PURCHASE FOR GE HEALTHCARE TECHNOLOGIES GOLD XTEND PRODUCTS", referenced on page 02/09 of the purchase agreement.
3. Regarding the response to Question #6 regarding evidence of any and all capital costs and expenditures related to the acquisition and start up of the MRI unit:
  - a. Provide the amount of Sales Tax paid on this unit, when it was paid and by what entity.
  - b. Provide the amount of any and all delivery, rigging and installation costs for this unit.
  - c. Provide the amount of any capitalized training costs related to installation and start up for this MRI unit.
  - d. Explain whether shielding was installed as part of this project. Is the \$33,000 for the RF Room referred to in the Jester Development Co. letter specific to the installation of shielding?

4. Verify that the 4/7/05 cancelled check for \$5,825 (No. 083855) is specifically related to and applied only toward the purchase of the MRI unit in question.
5. The Patient Screening and History Form and the Booking Sheet filed as part of Attachment C, lists a date at the top of these sheets of "12/19/2006". If this patient was scanned on 6/30/06, why then does this December date appear on these two sheets?
6. Regarding the documents filed in Attachment D:
  - a. The Purchase Agreement requires "an initial 10% deposit of \$34,900". That amount (the 10% deposit) wasn't billed for by GE until the 12/17/2005 invoice, which is a bill for \$34,900. The invoice again indicates that the billing terms are 10% down/70% delivery/20% install. It is unclear whether the deposit on this unit was paid in April 2005 (cancelled check) or in December 2005 (deposit invoice). Provide a breakout which shows when COS made payments to GE on this unit. Also, provide a letter from GE that indicates that Connecticut Orthopedic Specialists made one or more installments on the payment of this unit (Gold Xtend 1.0T LX HiSpeed MRI unit) prior to July 1, 2005.
  - b. Please have GE verify the shipping date for this unit as it is not listed on the invoice sheet provided to OHCA.
  - c. Why is there a five month delay between COS signing the Master Lease Schedule on 2/6/2006 and the commencement of the lease terms on 7/6/2006.
7. Describe the circumstances that resulted in the extensive delay in project commencement (purchase agreement signed in March of 2005, first patient scanned on June 30, 2006).
8. Please indicate the dates that Jester Development was onsite to perform the MRI room renovations. When was a certificate of occupancy issued for this space/building?

Please repeat each question prior to providing the response for that question. Please paginate your submission in its entirety including any attachments. Contact me at (860) 418-7041 if you have any questions regarding the above further inquiry.

Sincerely,

  
Karen Roberts  
Compliance Officer

Enclosure

Copy: Stephen M. Cowherd, Esquire, Jeffers & Ireland, P.C.

## AFFIDAVIT

Applicant: \_\_\_\_\_

Project Title: \_\_\_\_\_

I, \_\_\_\_\_, \_\_\_\_\_  
(Name) (Position – CEO/President)

of \_\_\_\_\_ (Facility Name) being duly sworn, depose  
and state that any and all representatives of the facility have provided information  
which is complete, true and accurate as it relates to all documents filed by these  
representatives of the facility with the Office of Health Care Access regarding  
Docket Number 06-30881-DTR.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Subscribed and sworn to before me on \_\_\_\_\_

\_\_\_\_\_  
Notary Public/Commissioner of Superior Court

My commission expires: \_\_\_\_\_



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**  
(203) 882-3376

- TIC LIMB SALVAGE
- FOOT SURGERY

### OFFICE LOCATIONS

GUILFORD (203) 453-6340  
HAMDEN (203) 407-3500  
MILFORD (203) 882-3373  
NEW HAVEN (203) 789-2211  
ORANGE (203) 795-4784  
WALLINGFORD (203) 265-1800

February 1, 2007

### VIA FEDERAL EXPRESS

Ms. Karen Roberts  
Compliance Officer  
Office of Health Care Access  
410 Capitol Avenue, MS#13HCA  
P.O. Box 340308  
Hartford, CT 06134

*Re: Certificate of Need Determination; Report Number 06-30881-DTR  
Acquisition of an MRI unit for 84 North Main Street Branford*

Dear Ms. Roberts:

The following are the responses of Connecticut Orthopaedic Specialists, P.C. ("COS") to your letter of January 11, 2007 regarding the above-referenced Certificate of Need Determination. An original and three (3) copies are being provided for your convenience.

#### 1. Please complete and return the attached Affidavit.

The affidavit is attached to this response document. See Attachment A.

#### 2. Regarding the Purchase Agreement submitted as Attachment B, pages 02/09 through 07/09 had been submitted. Please provide pages 1, 8 and 9 of that document. Also provide any attachments to this document, such as the "Standard Conditions of Purchase for the G. E. Technologies Gold Xtend Products", referenced on page 02/09 of the purchase agreement.

The pages that you are requesting are as follows: page 01 was the cover page of the fax transmission from GE to my office. This page is no longer in COS' possession. Attachment B to this letter are pages 08 and 09 which consists of the leasing proposal between GE and COS that was accepted at the time of our commitment to purchase the MRI unit. This lease arrangement was eventually replaced when COS decided to finance the transaction through the lease agreement with Popular Leasing Company which was attached to our January 8 correspondence at Attachment D.

There were no other attachments to the Purchase Agreement.

RECEIVED  
2007 FEB -2 PM 12:55  
CONNECTICUT OFFICE OF  
HEALTH CARE ACCESS



# CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518 WWW.CT-ORTHO.COM  
 BILLING # (203) 407-3560 MAIN # (203) 407-3500 FAX # 281-1164

## ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
 (203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
 (203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
 (203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
 (203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DELUCA, M.D.**  
 (203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
 (203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
 (203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
 (203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
 (203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
 (203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. MCCALLUM, M.D.**  
 (203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
 (203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
 (203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
 (203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
 (203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DELOTT, D.P.M.**  
 (203) 882-3376

- LOWER LIMB SALVAGE
- FOOT SURGERY

## OFFICE LOCATIONS

GUILFORD (203) 453-6340  
 HAMDEN (203) 407-3500  
 MILFORD (203) 882-3373  
 NEW HAVEN (203) 789-2211  
 ORANGE (203) 795-4784  
 WALLINGFORD (203) 265-1800

### 3. Regarding the response to question number six regarding evidence of any and all capital costs and expenditures related to the acquisition and start up of the MRI unit:

- Provide the amount of sales tax paid on this unit, when it was paid and by what entity.
- Provide the amount of any and all delivery, rigging and installation costs for this unit.
- Provide the amount of any capitalized training costs related to the installation and start up for this MRI unit.
- Explain whether the shielding was installed as part of this project. Is the \$33,000 for the R. F. Room referred to in the Jester Development Company letter specific to the installation of the shielding?

- COS pays \$447.99 of sales tax monthly to Popular Leasing as evidenced by the invoice provided at Attachment C. Also at Attachment C, please see the letter from COS' accounting firm, Teplitzky & Company, explaining the treatment of the sales tax as an operating cost/expenditure as opposed to a capital cost/expenditure.
- The delivery, rigging and installation of this unit was included in the \$349,000 purchase price established by GE. Please refer to the confirmatory letter from GE regarding this matter which is found at Attachment D.
- The training costs related to the installation and start up of this MRI unit were included in the \$349,000 purchase price. Please refer to the confirmatory letter from GE regarding this matter at Attachment D.
- Jester Development Company installed the shielding and RF room for a total of \$33,000. This sum was inclusive of delivery and installation of all shielding necessary for the installation and operation of this MRI unit.

### 4. Verify that the 4/7/05 cancelled check for \$5,825 (No. 083855) is specifically related to and applied only toward the purchase of the MRI unit in question.

Please see Attachment D, a letter from GE verifying that check # 083855 in the amount of \$5,825 was applied towards the purchase of the MRI unit in lieu of the stated 10% deposit requirement.



## CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518

WWW.CT-ORTHO.COM

BILLING # (203) 407-3560

MAIN # (203) 407-3500

FAX # 281-1164

### ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**

(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**

(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**

(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**

(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**

(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**

(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**

(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**

(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**

(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**

(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**

(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**

(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**

(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**

(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**

(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**

(203) 882-3376

- TIBIAL LIMB SALVAGE
- FOOT SURGERY

### OFFICE LOCATIONS

GUILFORD	(203) 453-6340
HAMDEN	(203) 407-3500
MILFORD	(203) 882-3373
NEW HAVEN	(203) 789-2211
ORANGE	(203) 795-4784
WALLINGFORD	(203) 265-1800

5. The Patient Screening and History Form and the Booking Sheet filed as part of Attachment C, lists a date at the top of the sheets of December 19, 2006. If the patient was scanned on June 30, 2006, why then does this December date appear on these two sheets?

The date at the top of these two sheets (12-19-06) is the faxed stamp date for the transmission of this form from the COS Branford location to my office. COS' medical records are kept in the location where the service was rendered, in this case Branford. The patient's date of service was on June 30, 2006.

6. Regarding documents filed in Attachment D.

- The Purchase Agreement requires "an initial 10% deposit of \$34,900." That amount (the 10% deposit) wasn't billed for by GE until December 17, 2005, which is a bill for \$34,900. The invoice again indicates that the billing terms are 10% down 70% with delivery and 20% with installation. It is unclear whether the deposit on this unit was paid in April 2005 (canceled check) or in December 2005 (deposit invoice). Provide a breakout which shows when COS made payments for the GE unit. Also, provide a letter from GE indicating that Connecticut Orthopaedic Specialist made one or more installments on the payment of this unit (Gold Xtend 1.0T LX HiSpeed MRI unit) prior to July 1, 2005.
- Please have GE verify the shipping date for this unit as it is not listed on the invoice sheet provided to OCHA.
- Why is there a five-month delay between COS signing the Master Lease Schedule on 2/6/06 and the commencement of the lease terms on 7/6/06.
  - Please refer to Attachment D, which confirms that COS paid the initial deposit of \$5,825 prior to July 1, 2005. Thereafter, COS did not make any other payments on the GE unit until after the closing of the leasing arrangement with Popular Leasing. COS has been making monthly payments to Popular in accordance with the lease terms since that time.
  - Please refer to Attachment D.
  - The differential in the dates is because the financial terms of the lease could not be closed until the MRI was installed and operational, which occurred on



# CONNECTICUT ORTHOPAEDIC SPECIALISTS, P.C.

2408 WHITNEY AVENUE, HAMDEN, CONNECTICUT 06518 WWW.CT-ORTHO.COM  
BILLING # (203) 407-3560 MAIN # (203) 407-3500 FAX # 281-1164

## ORTHOPAEDIC SURGEONS

**JOHN M. AVERSA, M.D.**  
(203) 407-3505

- GENERAL ORTHOPAEDICS & HAND SURGERY
- JOINT REPLACEMENT/SPORTS MEDICINE

**JOHN M. BEINER, M.D.**  
(203) 882-3375

- CERVICAL SPINE/SPINAL TRAUMA
- ADULT/PEDIATRIC SPINAL DISORDERS

**HUBERT B. BRADBURN, M.D.**  
(203) 407-3510

- UPPER EXTREMITY ORTHOPAEDICS
- HAND AND WRIST SURGERY

**DAVID B. COHEN, M.D.**  
(203) 407-3518

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER, KNEE & ELBOW SURGERY

**PETER A. DeLUCA, M.D.**  
(203) 867-6448

- PEDIATRIC ORTHOPAEDICS
- ILIZAROV SURGERY

**RICHARD DIANA, M.D.**  
(203) 407-3540

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**NORMAN R. KAPLAN, M.D.**  
(203) 407-3520

- GENERAL ORTHOPAEDICS/SPORTS MEDICINE
- TOTAL JOINT REPLACEMENT

**JOHN D. KELLEY, M.D.**  
(203) 407-3535

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**KENNETH M. KRAMER, M.D.**  
(203) 407-3530

- ADULT / PEDIATRIC SPINAL DISORDERS
- SPINAL TRAUMA

**JOHN MARINO, M.D.**  
(203) 882-7204

- PHYSICAL MEDICINE AND REHABILITATION
- ELECTROMYOGRAPHY

**JOHN D. McCALLUM, M.D.**  
(203) 407-3545

- TOTAL JOINT REPLACEMENT/ARTHROSCOPY
- MINIMALLY INVASIVE HIP/KNEE SURGERY

**THOMAS P. MORAN, M.D.**  
(203) 407-3510

- ADULT / PEDIATRIC FRACTURE CARE
- HAND / UPPER EXTREMITY SURGERY

**PATRICK A. RUWE, M.D.**  
(203) 301-5010

- SPORTS MEDICINE/ARTHROSCOPY
- SHOULDER & KNEE SURGERY

**ENZO J. SELLA, M.D.**  
(203) 407-3526

- GENERAL ORTHOPAEDICS/FOOT/ANKLE SURGERY
- INDEPENDENT MEDICAL EXAMINER

**DAVID S. CAMINEAR, D.P.M.**  
(203) 407-3528

- FOOT SURGERY
- FOOT TRAUMA

**JEFFREY M. DeLOTT, D.P.M.**  
(203) 882-3376

- TIG LIMB SALVAGE
- FOOT SURGERY

## OFFICE LOCATIONS

GUILFORD (203) 453-6340  
HAMDEN (203) 407-3500  
MILFORD (203) 882-3373  
NEW HAVEN (203) 789-2211  
ORANGE (203) 795-4784  
WALLINGFORD (203) 265-1800

June 30, 2006, at which time the appropriate market rate for interest could be determined. See Attachment E, letter dated 8-22-06 from Popular Leasing to COS.

7. **Describe the circumstances that resulted in the extensive delay in the project commencement (purchase agreement signed in March of 2005, first patient scanned on June 30, 2006).**

At the time that COS entered into a Purchase Agreement for the MRI, COS had already begun construction of a new medical office in Branford. This medical office was projected to open for business in January 2006. Unfortunately, due to weather and other construction delays, the building was not ready until the spring of 2006. When the building was ready for the installation of the MRI unit, COS was informed by GE that the MRI installation team was installing another MRI in Greenwich, Connecticut. This forced COS to wait for the installation team to complete the Greenwich project before they could begin installing our unit. Installation finally began in early June and we began operations on June 30, 2006.

8. **Please indicate the dates Jester Development was on-site to perform the MRI room renovations. When was the certificate of occupancy issued for this space/building?**

Jester Development Company began construction on the medical office at 84 N. Main St., Branford in January 2005. They remained on-site until COS took occupancy of the building in April 2006. A certificate of occupancy was issued by the town of Branford in April 2006.

On behalf of COS, we trust that the Office of Health Care Access will find the answers above to be responsive to your requests. Please feel free to contact me directly or Mr. Cowherd, who has been copied on this response, should you have any further questions.

Sincerely,

Glenn Elia  
Chief Executive Officer

cc: Stephen M. Cowherd, Jeffers & Ireland, P.C. (w/enc.)

# ATTACHMENT A

# AFFIDAVIT

Applicant: CONNECTICUT ORTHOPEDIC SPECIALISTS, P.C.

Project Title: Branford MRI

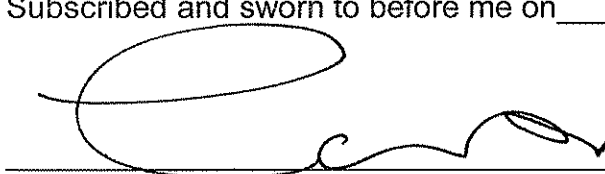
I, GLENN ELIA, CEO  
(Name) (Position – CEO/President)

of CT ORTHO SPECIALISTS (Facility Name) being duly sworn, depose

and state that any and all representatives of the facility have provided information which is complete, true and accurate as it relates to all documents filed by these representatives of the facility with the Office of Health Care Access regarding Docket Number 06-30881-DTR.

  
Signature

1-23-07  
Date

Subscribed and sworn to before me on Jan 23, 2007  


Notary Public/Commissioner of Superior Court

My commission expires: \_\_\_\_\_

# ATTACHMENT B

03/25/2005 17:59 2832888411

PAGE 08/09

**GE Healthcare Financial Services**

February 8, 2005

GE Healthcare Financial Services is pleased to provide a quotation for lease financing.

**Customer:** Connecticut Orthopedic Services  
Hamden, CT

**Equipment:** GE GoldSeal 1.0

**Equipment Cost:** \$349,000.00 plus applicable sales tax.

**Lease Term:** 60 Months

**Payments:** 60 Payments @ \$ 5,825.00 (equipment) + \$8,750.00 (service) = \$14,575.00

**End of Term Options:** Fair Market Value End of Term Purchase Option

*3rd party*

**This proposal does not constitute a credit approval or commitment to lend on behalf of GE Healthcare Financial Services. All pricing is subject to final investment and credit approval. One payment is due at the start of the lease. Please note that there is a \$200.00 documentation fee. Proposal Expires April 3, 2005. Please fax the executed proposal back to Sandra McGee at 1-203-749-4745.**

The summary of proposed terms and conditions set forth in this proposal is not intended to be all-inclusive. Any terms and conditions that are not specifically addressed herein would be subject to future negotiations. Moreover, by signing the proposal, the parties acknowledge that: (i) this proposal is not a binding commitment on the part of any person to provide or arrange for financing on the terms and conditions set forth herein or otherwise; (ii) any such commitment on the part of GEHFS would be in a separate written instrument signed by GEHFS following satisfactory completion of GEHFS' due diligence, internal review and approval process (which approvals have not yet been sought or obtained); (iii) this proposal supersedes any and all discussions and understandings, written or oral between or among GEHFS and any other person as to the subject matter herein; and (iv) GEHFS may, at any level of its approval process, decline any further consideration of the proposed financing and terminate its credit review process. GEHFS' standard documents will be used.

Except as required by law, neither this proposal nor its contents will be disclosed publicly or privately except to those individuals who are your officers, employees or advisors who have a need to know as a result of being involved in the proposed transaction and then only on the condition that such matters may not be further disclosed. Notwithstanding the foregoing, there is no restriction (either express or implied) on any disclosure or dissemination of the tax structure or tax aspects of the transactions contemplated by this proposal. Further, GEHFS acknowledges that it has no proprietary rights to any tax matter or tax idea or to any element of the proposal's transaction structure.

You hereby authorize GEHFS to file in any jurisdiction as GEHFS deems necessary any initial uniform commercial code financing statements that identify the Equipment or any other assets subject to the proposed financing described herein. If for any reason the proposed transaction is not approved, upon your satisfaction in full of all obligations to GEHFS, GEHFS will cause the termination of such financing statements. You acknowledge and agree that the execution of this proposal and the filing by GEHFS of such financing statements, in no way obligates GEHFS to provide the financing described herein.

83/25.2005 17:59 2032888411

PAGE 09/09

We look forward to your early review and response. If there are any questions, we would appreciate the opportunity to discuss this proposal in more detail at your earliest convenience. Please do not hesitate to contact me directly at 978-475-2885.

Sincerely yours,

*Sandra J. McGee*

Sandra J. McGee  
Sales Support Manager  
GB Healthcare Financial Services  
978-475-2885 (Office)  
978-470-0977 (Office Fax)  
203-749-4745 (E-Fax)  
Sandra.McGee@hgc.com

Acknowledged and Accepted:

KEVIN ELIA  
(Legal Name)  
By: CONN. ORTHO. SPECIALIST  
Title: CEO  
Date: 3/29/05  
Fed. ID #: 06-0855842

Customer Contact: \_\_\_\_\_ Phone: \_\_\_\_\_

# ATTACHMENT C

# POPULAR LEASING.

POPULAR LEASING U.S.A., INC.  
 Lockbox #771922, 1922 Solutions Center  
 Chicago, IL 60677-1009  
 Telephone: (800) 829-9411  
 Fax: (636) 557-1085

Bill To: 00003 000310

Page: 1  
 Invoice Number: 101287449  
 Invoice Date: 12/11/06  
 Customer Number: 047494  
 Visit our website: [www.poplease.com](http://www.poplease.com)

Connecticut Orthopaedic Specia  
 2408 Whitney Ave  
 Hamden, CT 06518-3209

For Insurance Related Questions Call: (877) 878-0376  
 Please include your customer/lease number on your check.  
 Late fees will be assessed according to your lease agreement.

DESCRIPTION	LEASE NUMBER	DUE DATE	PAYMENT AMOUNT
Previous Balance			22,363.91
Payments: Ck# 91236 11/27/06			( 22,363.91)
LEASE PAYMENT	047494.01	12/30/06	7,292.45
Sales Tax	047494.01	12/30/06	437.55
LEASE PAYMENT	047494.02	12/30/06	7,466.55
Sales Tax	047494.02	12/30/06	447.99
Balance Due			15,644.54

Y CODE 107437  
 101287449  
 1540  
 1730.00 0240610-000  
 7914.54 0500610-000  
 01 #  
 01 #  
 Purchase entered 6M

We may report information about your account to credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report.

**Teplitzky**  
**& Company** P.C.  
Certified Public Accountants

One Bradley Road, Building 600  
Woodbridge, Connecticut 06525  
Tel. 203.387.0852  
Fax. 203.387.1918  
www.teplitzky.com

January 29, 2007

Stephen Cowherd, Esquire  
Jeffers & Ireland, Professional Corporation  
55 Walls Drive  
Fairfield, CT 06824

RE: Connecticut Orthopaedic Specialists, P.C.

Dear Attorney Cowherd:

You have asked me to describe the treatment of sales tax on a capital lease arrangement entered into by Connecticut Orthopaedic Specialists, P.C. ("COS") with Popular Leasing and whether it would be appropriate under generally accepted accounting principles ("GAAP") to treat the sales tax as a capital expense under the particular facts and circumstances of this transaction.

As you know, there are two types of lease arrangements that a company can enter into with a leasing company. The first is a capital lease. A lease is deemed a capital lease if it meets any one of the following four conditions:

- a. if the lease life exceeds 75% of the life of the asset
- b. if there is a transfer of ownership to the lessee at the end of the lease term
- c. If there is an option to purchase the asset as a "bargain price" at the end of the lease term
- d. If the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

If the lease does not meet any of the four criteria, it is deemed an operating lease. The lessee does not enjoy ownership of the property and returns the property to the lessor at the end of the lease.

Per the lease arrangement entered into by COS, the lease of the MRI from Popular Leasing is considered a capital lease. Per the terms of the lease (See Attached Lease) COS was to pay Popular Leasing over a 63 month period at a rate of \$7,163.50 per month, beginning in month four, plus applicable taxes (See Paragraph III(a) of Lease).

Stephen Cowherd, Esquire

January 29, 2007

Page 2

The base amount of \$7,163.50 represents the purchase price of \$349,000 plus interest. At the end of the lease term, COS has the right to purchase the equipment for one dollar.

Because COS has both the benefits and burden of ownership of the MRI and falls into the criteria, the transaction is treated as a purchase of the MRI by COS. Such tax treatment of capital leases is determined under Revenue Ruling 72-408 1972-2 CB 86 (See Attachment). That ruling dictates that COS's basis of the property is the sum of all amounts payable over the term of the agreement that are considered to be payments for the purchase of the MRI equipment to the extent such amounts do not represent interest or other charges (see section 7 of the Revenue Ruling). Thus, its basis in the property will be \$349,000. As such, COS will be entitled to depreciate the machine over its useful life (see section 12 of the Revenue Ruling). It will not be able to deduct the payments as rent as it would under an operating lease.

In addition to depreciation, COS will be entitled to deduct that portion of the monthly lease that represents interest as it is paid (see section 10 of the Revenue Ruling). Finally, COS will be able to deduct that portion of the monthly lease that represents state and local taxes (sales tax) as it is paid (see section 11 of the Revenue Ruling). In this case, the sales tax is separately stated in the bill.

It is the directive of the IRS that interest and sales tax be treated as regular operating expenses, not capital expenses. Therefore, in accordance with Revenue Ruling 72-408, COS will treat the lease payments as follows:

1. Capitalizing the payments as they reflect the purchase of the MRI machine in the amount of \$349,000.
2. Expense as interest expense that part of the lease payment that is deemed interest as paid.
3. Expense as sales tax that part of the lease payment that represents sales tax as paid.

This is also the treatment prescribed under GAAP. Statement of Financial Accounting Standards (SFAS) No. 13 Accounting for Leases establishes the standards of financial accounting and reporting for leases by lessees and lessors. (See Attachment). Specifically, Paragraph 10 of the Statement directs the lessee to record a capital lease as an asset at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, **excluding** that portion of the payments representing executory costs such as insurance, maintenance and taxes to be paid by the lessor.

Stephen Cowherd, Esquire  
January 29, 2007  
Page 3

On another note you asked if sales tax is charged and capitalized on the transaction between the equipment manufacturer, in this case GE Medical Systems, and Popular Leasing. As you may know, in these situations the leasing company issues a resale certificate to the manufacturer. No sales tax is charged because COS and not Popular is the end user. This of course is consistent with the capital lease structure that has COS owning the MRI at the end of the lease term. Popular is collecting the sales tax as lease payments are made and is then remitting the sales tax to the State. Accordingly, no entity in this transaction is capitalizing the sales tax as there would be no basis to do so under GAAP by virtue of the resale certificate issued Popular and COS' treatment of the lease payments in conformance with Revenue Ruling 72-408 and SFAS 13.

If you should need anything further, please contact me.

Very truly yours,



Joshua A. Teplitzky, JD, CPA

JAT/nvj  
Enclosure

# **MASTER LEASE SCHEDULE**

By and Between

**Popular Leasing U.S.A., Inc.**

and

**Connecticut Orthopaedic Specialists, P.C.**

Master Lease Schedule Number: 47494.02

This MASTER LEASE SCHEDULE NUMBER 49494.02 ("Lease") is by and between Popular Leasing U.S.A., Inc., ("Lessor") and Connecticut Orthopaedic Specialists, P.C. ("Lessee") and incorporates the terms and conditions of that certain Master Lease Agreement dated as of July 7, 2004 between Lessor and Lessee ("Master Lease"). Lessor hereby leases to Lessee and Lessee hereby leases from Lessor the following described items of Equipment and/or Software for the Lease Term and on terms and conditions set forth herein. The Lease shall become effective as against Lessor upon Lessor's execution hereof.

**EQUIPMENT DESCRIPTION:** See Schedule A, Attached Hereto And Forming A Part Hereof.

**AGGREGATE ACQUISITION AMOUNT:** \$349,000.00

**EQUIPMENT LOCATION:** 84 N. Main Street, Branford, Connecticut 06405

**BILLING ADDRESS:** 2408 Whitney Avenue, Hamden, Connecticut 06518

**II. LEASE TERM:** ~~The Lease shall commence on the day that Lessee executes a Delivery and Acceptance Certificate with respect to the Equipment ("Commencement Date"). The Base Lease Term of the Lease shall be for the term indicated below and shall commence on the thirtieth day in the calendar month of the Commencement Date ("Base Term Commencement Date").~~

**BASE LEASE TERM:** Sixty-Three (63) months

## **III. LEASE PAYMENTS:**

(a) Base Term Rent consists of the following monthly payments:

☐ Indicated by an "X" if in arrears

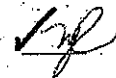
<u>Month(s)</u>	<u>Amount</u>
1-3	\$0.00
4-63	\$7,163.50
	plus applicable tax

The first installment of Base Term Rent shall be due and payable upon the earlier of (i) the date specified in Lessor's invoice therefor, or (ii) the Base Term Commencement Date.

(b) Interim Rent is due and payable in full on the date specified in Lessor's invoice(s) therefor and shall be computed by dividing one payment of Base Term Rent by thirty (30) and multiplying the result by the number of days from and including the Commencement Date to the day preceding the Base Term Commencement Date.

(c) On or before the Commencement Date, Lessee shall pay Lessor an amount equal to \$7,943.31 ("Advance Payment"). The Advance Payment, including taxes and documentation fee, shall be applied to Lessee's first and sixty-third Base Term Rent Payment; with any balance to be applied to subsequent Base Term Rent payments.

Lessee Initials:



**IV. LEASE END OPTIONS:** The following LEASE END OPTIONS shall apply as indicated by an "X".

- [X] Provided no Event of Default shall have occurred and remain uncured, Lessee may upon the expiration of the Base Lease Term exercise any one of the following options with respect to not less than all items of Equipment and Software comprising the Equipment being leased hereunder, (i) return the Equipment to Lessor, (ii) extend the Lease Term at the then fair rental value ("Fair Rental Value") for an extension term the length of which shall be determined by agreement between Lessee and Lessor or (iii) purchase the Equipment for a cash price equal to \$1.00 ("Cash Price"). Lessee agrees to provide Lessor with written notice of Lessee's decision not less than 90 days prior to the expiration of the Base Lease Term. If Lessee fails to give Lessor 90 days prior written notice, Lessee shall be deemed to have elected (iii) above. Upon receipt of Lessee's notice of termination and prior to the return of the Equipment, Lessor shall be entitled to expose the Equipment for resale or lease at the Lessee's premises during reasonable business hours (so long as such exposure does not unreasonably interfere with Lessee's business operations). If by proper notice Lessee elects to purchase the Equipment and upon receipt by Lessor of the Cash Price and all other sums due hereunder, Lessor shall: (i) convey title to the Equipment to Lessee free of liens and encumbrances created by Lessor on an *as-is, where-is* basis and without warranty; (ii) and permit Lessee to continue to use the Software in accordance with the applicable License Agreement. Fair Rental Value shall mean an amount which would obtain in a transaction between an informed and willing lessee (other than a dealer) and an informed and willing lessor (assuming for this purpose that the Equipment shall have been maintained in accordance with this Lease and taking into consideration the in-place value of the Equipment to Lessee) and will be determined by agreement between Lessor and Lessee.

**V. INDEX RATE:** The Lease Payments set forth in Section III hereof are based upon five (5) year United States Treasury obligations, which had an annual yield to maturity of 3.47 % (Index Rate). Lessor reserves the right to adjust the Lease Payments to reflect any changes in the Index Rate as of the Commencement Date.

**VI. PROGRESS PAYMENTS:** Provided no Event of Default has occurred and remains uncured under the Master Lease or this Lease, and Lessor has received such documentation and/or other items as Lessor may at its discretion require, Lessor agrees to make certain payment(s) on behalf of Lessee (each, an "Advance") which shall be repaid to Lessor upon demand and no later than 90 days after the date hereof. Lessee has entered into a purchase order and/or other documents relating to the Equipment being financed pursuant to this Lease (collectively, "Purchase Documents") with Vendor. In consideration for Lessor's making the Advances, Lessee assigns to Lessor all of its rights and interests in the Equipment and the Purchase Documents, but none of Lessee's obligations. Lessee and Lessor agree that:

- (a) ON DEMAND, FOR VALUE RECEIVED, LESSEE HEREBY UNCONDITIONALLY PROMISES TO PAY to the order of Lessor the principal sum of \$349,000.00 or, if less, the aggregate unpaid principal amount of all advances ("Advances") in payment or partial payment by Lessor to a supplier or manufacturer of the Equipment, together with any accrued but unpaid interest on any and all principal amounts remaining unpaid hereunder from time to time. Interest shall accrue on each Advance at an annual interest rate equal to the Prime Rate, as reported from time to time in the Money Rate Section of The Wall Street Journal, plus two percent ( 2%) ("Progress Payment Rate") from the date of such Advance until the earlier of the repayment in full thereof or the Commencement Date. Any amount of principal which is not paid when due shall bear interest from the day when due until paid in full at a monthly interest rate equal to the lesser of: (i) one and one half percent (1.5%) or (ii) the highest rate legally permissible. If a court of competent jurisdiction shall determine that Lessor has received interest hereunder in excess of the highest permissible rate, Lessor shall promptly refund such excess interest to the Lessee and this Lease shall be automatically modified to the extent necessary to comply with the applicable laws. Presentment, protest and notice of nonpayment are hereby waived by the Lessee. ~~Both principal and interest are payable in immediately available and lawful money of the United States of America~~ to Lessor at the address set forth above, or to such other address or entity as Lessor may direct in writing. All Advances made by Lessor and all payments made on account of principal hereof shall be recorded by Lessor and, upon the Lessee's request, Lessor shall provide the Lessee with a statement showing all such Advances and payments. The Advances and accrued interest thereon shall become due and payable upon the earliest of: (i) demand by Lessor (ii) 90 days after the date hereof or (iii) the Commencement Date, provided no default has occurred and remains uncured Lessor shall finance the sum of all advances over the term of this Schedule when such payments become due and payable, hereunder. The Lessee authorizes Lessor to include any unpaid principal (to the extent not otherwise already included) and any unpaid interest hereunder in the cost of the Equipment financed by Lessor and to increase the Lease Payments under the Lease proportionately to reflect the increased cost of the Equipment.

Lessee Initials: ✓ [Signature]

(b) Lessee has no interest in or right to any Advance made by Lessor to Vendor, and if any Advance moneys are returned or refunded to Lessee by Vendor, Lessee agrees to hold such moneys in trust for Lessor and to immediately forward such moneys to Lessor. If the transaction contemplated by this Lease is deemed to be other than a true lease, then to secure payment and performance of Lessee's obligations under this Lease, Lessee grants to Lessor a security interest in the System and all attachments, accessories, additions, substitutions, products, replacements and rentals and proceeds therefrom (including insurance proceeds).

(c) If the Equipment is not manufactured and delivered as required by the Purchase Documents or is not properly installed, does not operate as represented or warranted by Vendor, or is unsatisfactory for any reason, Lessee shall make all claims pertaining thereto solely against Vendor and shall, nevertheless, pay Lessor all amounts due under this Lease. Lessor shall have no liability to Lessee or any third party for any direct, indirect, special or consequential damages arising out of this Agreement or concerning the Equipment. This Lease cannot be canceled or terminated by Lessee, and Lessee has an unconditional obligation to pay all amounts required under the terms of this Lease when they are due; Lessee is not entitled to abate or reduce the amounts due or to set off any charges against those amounts; Lessee is not entitled to recoupment(s), cross-claim(s), counterclaim(s) or any other defense(s) to the amounts due, whether such matters arise out of claims by Lessee against Lessor, Vendor or otherwise. Lessor may require payment in full of the Advances and accrued interest at any time, and upon the occurrence of an Event of Default, Lessor may, without limitation, apply any advance rentals under the Lease to the Lessee's repayment obligation hereunder.

#### VII. ADDITIONAL PROVISIONS:

LESSEE: Connecticut Orthopaedic Specialists, P.C. LESSOR: Popular Leasing U.S.A., Inc.

By: [Signature]  
Print Name: Michael J. Loubo  
Title: COORDINATOR  
Date: 7/6/06

By: [Signature]  
Print Name: Phyllis Hardcastle  
Title: Vice Pres  
Date: 7/6/06

Lease #: 47494.02 (to be completed by Lessor when known)  
Commencement Date: 7/6/06 Base Term Commencement Date: 7/30/06

Connecticut Orthopaedic Specialists, P.C.  
Lease No. 47494.02

**SCHEDULE A**

**Vendor:** General Electric Company (through it's business unit GE Healthcare Technologies)  
3114 N. Grandview Blvd.  
W-544  
Waukesha, WI 53188

**Equipment Description:** (1) Preowned Gold Xtend Signa 1.0T LX HiSpeed MR/Octane High Resolution Whole Body MR Imaging System (Year of Manufacture: 2003)

**System Includes:**

➤ **Hardware**

- 1.0T LX HiSpeed Electronics
- LX Octane SGI Workstation
- New Patient Table
- Body Coil and Head Coil
- Phased Array
- 1.0T CX-K4 Actively Shielded Short Bore Magnet (pre-owned)
- Reflex 50 Recon Module with 256 BAM
- New Color LCD Monitor
- New M1887SP-1.0T CTL Coil-UFF
- New M1887SD-1.0T Shoulder Coil
- New M1887HW-1.0T Wrist Coil
- Dual Array Package
- New M1885E 1.0T Extremity Coil

➤ **Software**

- LX ScanTools 9.1-including FuncTool
- EchoPlus Software

**Lessee:** Connecticut Orthopaedic Specialists, P.C.

**By:** Michael J. London

**Print Name:** Michael J. London

**Title:** CONTROLLER

**Date:** 2/6/06

District Director is convinced of the genuineness of his claim, it need not be conclusive. It is evident that what in fact constitutes sufficient evidence of actual support may vary from case to case.

While not required, written statements contemporaneous with the expenditures of support funds setting forth the amounts and purposes of such expenditures are entitled to great weight. Similarly, written support agreements between parties or memoranda to the effect that an oral support agreement exists also will be considered as providing strong evidence of actual support. Little weight will be attached to oral agreements alone, but depending on the particular facts, such evidence may be regarded as providing evidence of actual support.

Notations by the maker on support checks purporting to allocate funds to particular household members, made payable to an individual having custody of a claimed dependent, will be regarded as evidence of actual support.

The sources of support in *Situation (2)* as determined by the application of the above guidelines are as follows:

Source of Support	Recipient of Support and Amount Received		
	<i>W</i>	<i>S</i>	<i>D</i>
<i>W</i>	\$1,080	\$ 120	\$ 720
<i>S</i>		240	
<i>U</i>	120	120	120
<i>H</i>		720	360
Total Support	\$1,200	\$1,200	\$1,200

The facts of *Situation (2)* differ from *Situation (1)* only in the existence of *H's* uncontradicted designation. That designation is evidence that *H* provided \$720 to *S*, \$360 to *D*, and nothing to *W*. Since under Rev. Rul. 235 each member of the household is considered to have received an equal amount of support and each individual is generally considered to have provided first toward his own support, *W* is considered to have provided

\$1,080 toward her own support (as compared to \$720 in *Situation (1)*) and to have provided only \$120 of support to *S* (as compared to \$480 in *Situation (1)*).

Accordingly, based on the application of the guidelines established herein as well as Revenue Ruling 235 and Revenue Ruling 64-222, it is concluded that *W* provided over one-half the support of *D* (\$720 out of \$1,200) in both *Situation (1)* and *Situation (2)*, but that *H* provided over one-half the support of *S* (\$720 out of \$1,200) in *Situation (2)* only.

Revenue Ruling 235, C.B. 1953-2, 23, and Revenue Ruling 64-222, C.B. 1964-2, 47, are clarified both with respect to their applicability upon a showing of actual support and to the interpretation of "actual support" as that term is used therein.

26 CFR 1.152-1: General definition of a dependent.

Whether an individual who attended an institute during evening hours may be considered a student for purposes of being a dependent. See Rev. Rul. 72-449, page 83.

#### Part VI. Itemized Deductions for Individuals and Corporations

#### Section 162.—Trade or Business Expenses

26 CFR 1.162-1: Business expenses. (Also Sections 38, 50, 163, 164, 167, 453, 483, 1223, 1231, 1245; 1.38-1, 1.162-11, 1.163-1, 1.164-1, 1.167(a)-1, 1.453-1, 1.483-1, 1.1223-1, 1.1231-1, 1.1245-1.)

Tax consequences of a transaction cast in the form of and treated by the parties as a lease of "section 38" property and subsequently determined to be a sale.

#### Rev. Rul. 72-408

Advice has been requested as to certain of the Federal income tax consequences resulting from a conclusion that a transaction the parties thereto have cast in the form of a lease of property is, for Federal income tax purposes, a sale of such property.

and therefore, for Federal income tax.

In 1968, *A*, an individual and a calendar year taxpayer, acquired new "section 38 property" and claimed the investment credit on his 1968 Federal income tax return based on a useful life of ten years. On August 31, 1971, *A* entered into an agreement with *M*, a corporation reporting its income on a calendar year accounting period, whereby *A* "leased" the property to *M*. The agreement provided that, in addition to the specified "rent" for the property, *M* would pay to *A* amounts sufficient to cover specific items of expense arising from *M's* use of the property.

It was determined that, under the agreement, *M* has the benefits and burdens of ownership of the property and therefore for Federal income tax purposes, the transaction is considered a sale of the property.

Based solely on the foregoing facts, certain of the Federal income tax consequences are as follows:

(1) The sale by *A* to *M* occurred on the earlier of the date on which *M* took possession of the property or the date on which *M* was entitled to take possession of the property under the terms of the agreement, and the holding period of the property will be determined accordingly.

(2) The amounts received by *A* as "rent" under the agreement are considered payments on the sale price of the property to the extent such amounts do not represent interest or other charges. See Rev. Rul. 55-540, C.B. 1955-2, 39, 43.

(3) Any gain realized by *A* upon the sale of the property to *M* is subject to the provisions of sections 1231 and 1245 of the Internal Revenue Code of 1954.

(4) Since the agreement between *A* and *M* is treated as a sale of property for purposes of the Code, it is a "contract for the sale or exchange of property" for purposes of applying section 483 of the Code with respect to the treatment as interest of a portion of

the per as "ren (5)

(1) of compun: propri with

claimed come t

(6) of *M* 50 of 1

an inv such f useful

more, will co

erty as the C (7)

the ha amour agreee

payme propel

amount other. (8)

deduc of the under (9)

ordin: or inc

pursu And t (10)

under partic intere

tion: under (11)

tions with to se regul

(1) tion prop

the t unde prop

the periodic payments received by *A* as "rent" under the agreement.

(5) The provisions of section 47(a)(1) of the Code, relating to the recomputation of the investment credit upon early disposition of section 38 property, are applicable to *A* in 1971 with respect to investment credit claimed by *A* on his 1968 Federal income tax return.

(6) Since the property in the hands of *M* is property described in section 50 of the Code, *M* will be entitled to an investment credit with respect to such property if the property has a useful life of at least 3 years. Furthermore, in the hands of *M*, the property will constitute used section 38 property as described in section 48(c) of the Code.

(7) The basis of the property in the hands of *M* will be the sum of all amounts payable over the term of the agreement that are considered to be payments for the purchase of the property by *M*, to the extent such amounts do not represent interest or other charges.

(8) *M* will not be entitled to rental deductions under section 162(a)(3) of the Code and the regulations thereunder.

(9) *M* will be entitled to deduct all ordinary and necessary expenses paid or incurred in respect of the property pursuant to section 162 of the Code and the regulations thereunder.

(10) *M* will be entitled to deduct under section 163 of the Code that portion of the "rent" that represents interest determined pursuant to section 483 and the regulations thereunder.

(11) *M* will be entitled to deductions for state and local taxes imposed with respect to the property, pursuant to section 164 of the Code and the regulations thereunder.

(12) *M* will be entitled to depreciation deductions with respect to the property, pursuant to section 167 of the Code and the regulations thereunder. Since the original use of the property did not commence with *M*,

it may not determine depreciation by use of the methods described in paragraphs (2), (3), and (4) of section 167(b) of the Code. See section 167(c)(2) of the Code. *M* may elect, however, to compute depreciation by use of the declining balance method with the rate limited to 150% of the applicable straight line rate if it satisfies the requirements of Revenue Ruling 57-352, C.B. 1957-2, 150, or of section 1.167(a)-11(c)(1)(iv) of the Income Tax Regulations if an election is made under section 1.167(a)-11 of the regulations for the calendar year 1971.

With respect to *A*, he may report the gain, if any, on the installment method of accounting, provided he has made a valid election to do so and otherwise complies with the provisions of section 453 of the Code. In determining the validity of an election to report gain on the sale of property on the installment method made other than on a timely-filed Federal income tax return for the year of sale (1971), the provisions of Revenue Ruling 65-297, C.B. 1965-2, 152, are applicable.

26 CFR 1.162-1: Business expenses.  
(Also Sections 38, 61, 163, 164, 167;  
1.38-1, 1.61-1, 1.163-1, 1.164-1, 1.167(a)-1.)

A ship sale and leaseback arrangement between unrelated corporations with beneficial ownership remaining in the seller and legal title held by purchaser as security for lenders constitutes a financial arrangement for the ship's reconstruction; the seller remains the owner for Federal tax purposes.

#### Rev. Rul. 72-543

Advice has been requested regarding the Federal income tax treatment by unrelated corporations of certain financial arrangements under the circumstances described below.

Corporation *X* is engaged in the business of shipping ocean freight. It owns a vessel that required extensive overhaul. To finance the cost of re-

constructing the vessel, *X* considered obtaining a loan. However, *X* found it inadvisable to obtain a loan by means of direct borrowing. Instead, it effected the borrowing in the following manner:

(1) *S*, a wholly-owned subsidiary of *P*, a bank, and unrelated to *X*, acquired title to the vessel at its fair market value. Pursuant to an agreement between *X* and *S* the vessel was reconstructed at a certain cost.

(2) *S* borrowed an amount equal to the cost of such acquisition and reconstruction of the vessel from a group of lenders under an agreement whereby *X* and *S* entered into a charterparty (a contract by which *S* leases the vessel to *X* to be used by *X* in transportation) under which all of *S*'s right, title, and interest in and to all monies and claims to money due and to become due under the charterparty were assigned to *P* as agent for such lenders.

(3) *S* chartered the vessel to *X* for a term of 21 years at a rental equal to an amount sufficient to retire the total acquisition and reconstruction costs plus accrued interest over the 21-year charter period. The charter contained an unconditional obligation of *X* to pay the rental regardless of whether *X* uses the vessel.

(4) The vessel will throughout the term of the charter be in every respect at the risk of *X* and *X* will throughout the same term insure and keep the vessel insured in a manner consistent with the insurance carried on similar vessels owned by *X*.

(5) Under the charter, *X* has an option to buy the vessel on the ninth anniversary of the delivery date of the vessel (the date the vessel as reconstructed was placed in the hands of *S*) at a pre-determined price which will be equal to the unamortized principal amount of the loan on that date. Also, *S* has the right to put the vessel to *X* on the same date that *X*'s option is exercisable and at the same price. Furthermore, the lenders have the



CCH

a Wolters Kluwer business

Accounting Research Manager® - Audit Public

FASB - Financial Accounting Standards Board  
 Statements of Financial Accounting Standards (SFAS) 2. Original Pronouncements (As Amended) a. Nos. 1 through 25  
 13: Accounting for Leases  
 Introduction

## Statement of Financial Accounting Standards No. 13 (As Amended)

### Accounting for Leases

November 1976

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the Financial Accounting Standards Board.

#### Introduction

1. This Statement establishes standards of financial accounting and reporting for leases by lessees and lessors. For purposes of this Statement, a lease is defined as an agreement conveying the right to use property, plant or equipment (land and/or depreciable assets) usually for a stated period of time. It includes agreements that, although not nominally identified as leases, meet the above definition, such as a "heat supply contract" for nuclear fuel.<sup>1</sup> This definition does not include agreements that are contracts for services that do not transfer the right to use property, plant, or equipment from one contracting party to the other. On the other hand, agreements that do transfer the right to use property, plant, or equipment meet the definition of a lease for purposes of this Statement even though substantial services by the contractor (lessor) may be called for in connection with the operation or maintenance of such assets. This Statement does not apply to lease agreements concerning the rights to explore for or to exploit natural resources such as oil, gas, minerals, and timber. Nor does it apply to licensing agreements for items such as motion picture films, plays, manuscripts, patents, and copyrights.

<sup>1</sup> Heat supply (also called "burn-up") contracts usually provide for payments by the user-lessee based upon nuclear fuel utilization in the period plus a charge for the unrecovered cost base. The residual value usually accrues to the lessee, and the lessor furnishes no service other than the financing.

2. This Statement supersedes *APB Opinion No. 5*, "Reporting of Leases in Financial Statements of Lessee"; *APB Opinion No. 7*, "Accounting for Leases in Financial Statements of Lessors"; paragraph 15 of *APB Opinion No. 18*, "The Equity Method of Accounting for Investments in

Common Stock"; APB Opinion No. 27, "Accounting for Lease Transactions by Manufacturer or Dealer Lessors"; and APB Opinion No. 31, "Disclosure of Lease Commitments by Lessees."

3. [This paragraph has been deleted. See Status page.]

4. Appendix A provides background information. Appendix B sets forth the basis for the Board's conclusions, including alternatives considered and reasons for accepting some and rejecting others. Illustrations of the accounting and disclosure requirements for lessees and lessors called for by this Statement are contained in Appendixes C and D. An example of the application of the accounting and disclosure provisions for leveraged leases is provided in Appendix E.

## Standards of Financial Accounting and Reporting

### Definitions of Terms

5. For purposes of this Statement, certain terms are defined as follows:

a. *Related parties in leasing transactions.* A parent company and its subsidiaries, an owner company and its joint ventures (corporate or otherwise) and partnerships, and an investor (including a natural person) and its investees, provided that the parent company, owner company, or investor has the ability to exercise significant influence over operating and financial policies of the related party, as significant influence is defined in APB Opinion No. 18, paragraph 17. In addition to the examples of significant influence set forth in that paragraph, significant influence may be exercised through guarantees of indebtedness, extensions of credit, or through ownership of warrants, debt obligations, or other securities. If two or more entities are subject to the significant influence of a parent, owner company, investor (including a natural person), or common officers or directors, those entities shall be considered related parties with respect to each other.

b. *Inception of the lease.* The date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties in interest to the transaction, and shall specifically set forth the principal provisions of the transaction. If any of the principal provisions are yet to be negotiated, such a preliminary agreement or commitment does not qualify for purposes of this definition.

c. *Fair value of the leased property.* The price for which the property could be sold in an arm's-length transaction between unrelated parties. (See definition of related parties in leasing transactions in paragraph 5(a).) The following are examples of the determination of fair value:

i. When the lessor is a manufacturer or dealer, the fair value of the property at the inception of the lease (as defined in paragraph 5(b)) will ordinarily be its normal selling price, reflecting any volume or trade discounts that may be applicable. However, the determination of fair value shall be made in light of market conditions prevailing at the time, which may indicate that the fair value of the property is less than the normal selling price and, in some instances, less than the cost of the property.

ii. When the lessor is not a manufacturer or dealer, the fair value of the property at the inception of the lease will ordinarily be its cost, reflecting any volume or trade discounts that may be applicable. However, when there has been a significant lapse of time between the acquisition of the property by the lessor and the inception of the lease, the

determination of fair value shall be made in light of market conditions prevailing at the inception of the lease, which may indicate that the fair value of the property is greater or less than its cost or carrying amount, if different. (See paragraph 6(b).)

d. *Bargain purchase option.* A provision allowing the lessee, at his option, to purchase the leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that exercise of the option appears, at the inception of the lease, to be reasonably assured.

e. *Bargain renewal option.* A provision allowing the lessee, at his option, to renew the lease for a rental sufficiently lower than the fair rental<sup>2</sup> of the property at the date the option becomes exercisable that exercise of the option appears, at the inception of the lease, to be reasonably assured.

<sup>2</sup> "Fair rental" in this context shall mean the expected rental for equivalent property under similar terms and conditions.

f. *Lease term.* The fixed noncancelable term of the lease plus (i) all periods, if any, covered by bargain renewal options (as defined in paragraph 5(e)), (ii) all periods, if any, for which failure to renew the lease imposes a penalty (as defined in paragraph 5(o)) on the lessee in such amount that a renewal appears, at the inception of the lease, to be reasonably assured, (iii) all periods, if any, covered by ordinary renewal options during which a guarantee by the lessee of the lessor's debt directly or indirectly related to the leased property<sup>2a</sup> is expected to be in effect or a loan from the lessee to the lessor directly or indirectly related to the leased property is expected to be outstanding, (iv) all periods, if any, covered by ordinary renewal options preceding the date as of which a bargain purchase option (as defined in paragraph 5(d)) is exercisable, and (v) all periods, if any, representing renewals or extensions of the lease at the lessor's option; however, in no case shall the lease term be assumed to extend beyond the date a bargain purchase option becomes exercisable. A lease that is cancelable (a) only upon the occurrence of some remote contingency, (b) only with the permission of the lessor, (c) only if the lessee enters into a new lease with the same lessor, or (d) only if the lessee incurs a penalty in such amount that continuation of the lease appears, at inception, reasonably assured shall be considered "noncancelable" for purposes of this definition.

<sup>2a</sup> The phrase *indirectly related to the leased property* is used in this paragraph to describe provisions or conditions that in substance are guarantees of the lessor's debt or loans to the lessor by the lessee that are related to the leased property but are structured in such a manner that they do not represent a direct guarantee or loan. Examples include a party related to the lessee guaranteeing the lessor's debt on behalf of the lessee, or the lessee financing the lessor's purchase of the leased asset using collateral other than the leased property.

g. *Estimated economic life of leased property.* The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

h. *Estimated residual value of leased property.* The estimated fair value of the leased property at the end of the lease term (as defined in paragraph 5(f)).

i. *Unguaranteed residual value.* The estimated residual value of the leased property (as defined in paragraph 5(h)) exclusive of any portion guaranteed by the lessee<sup>3</sup> or by a third party unrelated to the lessor.<sup>4</sup>

<sup>3</sup> A guarantee by a third party related to the lessee shall be considered a lessee guarantee.

<sup>4</sup> If the guarantor is related to the lessor, the residual value shall be considered as unguaranteed.

j. *Minimum lease payments.*

i. From the standpoint of the lessee: The payments that the lessee is obligated to make or can be required to make in connection with the leased property.<sup>4a</sup> However, a guarantee by the lessee of the lessor's debt and the lessee's obligation to pay (apart from the rental payments) executory costs such as insurance, maintenance, and taxes in connection with the leased property shall be excluded. If the lease contains a bargain purchase option, only the minimum rental payments over the lease term (as defined in paragraph 5(f)) and the payment called for by the bargain purchase option shall be included in the minimum lease payments. Otherwise, minimum lease payments include the following:

<sup>4a</sup> Contingent rentals as defined by paragraph 5(n) of *FASB Statement No. 13* shall be excluded from minimum lease payments.

(a) The minimum rental payments called for by the lease over the lease term.

(b) Any guarantee by the lessee<sup>5</sup> of the residual value at the expiration of the lease term, whether or not payment of the guarantee constitutes a purchase of the leased property. When the lessor has the right to require the lessee to purchase the property at termination of the lease for a certain or determinable amount, that amount shall be considered a lessee guarantee. When the lessee agrees to make up any deficiency below a stated amount in the lessor's realization of the residual value, the guarantee to be included in the minimum lease payments shall be the stated amount, rather than an estimate of the deficiency to be made up.

<sup>5</sup> See footnote 3.

(c) Any payment that the lessee must make or can be required to make upon failure to renew or extend the lease at the expiration of the lease term, whether or not the payment would constitute a purchase of the leased property. In this connection, it should be noted that the definition of lease term in paragraph 5(f) includes "all periods, if any, for which failure to renew the lease imposes a penalty on the lessee in an amount such that renewal appears, at the inception of the lease, to be reasonably assured." If the lease term has been extended because of that provision, the related penalty shall not be included in minimum lease payments.

ii. From the standpoint of the lessor: The payments described in (i) above plus any guarantee of the residual value or of rental payments beyond the lease term by a third party

unrelated to either the lessee<sup>6</sup> or the lessor,<sup>7</sup> provided the third party is financially capable of discharging the obligations that may arise from the guarantee.

<sup>6</sup> See footnote 3.

<sup>7</sup> See footnote 4.

k. *Interest rate implicit in the lease.* The discount rate that, when applied to (i) the minimum lease payments (as defined in paragraph 5(j)), excluding that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon, and (ii) the unguaranteed residual value (as defined in paragraph 5(i)) accruing to the benefit of the lessor,<sup>8</sup> causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property (as defined in paragraph 5(c)) to the lessor at the inception of the lease, minus any investment tax credit retained by the lessor and expected to be realized by him. (This definition does not necessarily purport to include all factors that a lessor might recognize in determining his rate of return, e.g., see paragraph 44.)

<sup>8</sup> If the lessor is not entitled to any excess of the amount realized on disposition of the property over a guaranteed amount, no unguaranteed residual value would accrue to his benefit.

l. *Lessee's incremental borrowing rate.* The rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term the funds necessary to purchase the leased asset.

m. *Initial direct costs.*<sup>8a</sup> Only those costs incurred by the lessor that are (a) costs to originate a lease incurred in transactions with independent third parties that (i) result directly from and are essential to acquire that lease and (ii) would not have been incurred had that leasing transaction not occurred and (b) certain costs directly related to specified activities performed by the lessor for that lease. Those activities are: evaluating the prospective lessee's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating lease terms; preparing and processing lease documents; and closing the transaction. The costs directly related to those activities shall include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that lease and other costs related to those activities that would not have been incurred but for that lease. Initial direct costs shall not include costs related to activities performed by the lessor for advertising, soliciting potential lessees, servicing existing leases, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Initial direct costs shall not include administrative costs, rent, depreciation, any other occupancy and equipment costs and employees' compensation and fringe benefits related to activities described in the previous sentence, unsuccessful origination efforts, and idle time.

<sup>8a</sup> Initial direct cost shall be offset by nonrefundable fees that are yield adjustments as prescribed in FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*.

n. *Contingent rentals.* The increases or decreases in lease payments that result from changes

occurring subsequent to the inception of the lease in the factors (other than the passage of time) on which lease payments are based, except as provided in the following sentence. Any escalation of minimum lease payments relating to increases in construction or acquisition cost of the leased property or for increases in some measure of cost or value during the construction or pre-construction period, as discussed in *FASB Statement No. 23*, "Inception of the Lease," shall be excluded from contingent rentals. Lease payments that depend on a factor directly related to the future use of the leased property, such as machine hours of use or sales volume during the lease term, are contingent rentals and, accordingly, are excluded from minimum lease payments in their entirety. However, lease payments that depend on an existing index or rate, such as the consumer price index or the prime interest rate, shall be included in minimum lease payments based on the index or rate existing at the inception of the lease; any increases or decreases in lease payments that result from subsequent changes in the index or rate are contingent rentals and thus affect the determination of income as accruable.

*o. Penalty.* Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to disburse cash, incur or assume a liability, perform services, surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment. Factors to consider when determining if an economic detriment may be incurred include, but are not limited to, the uniqueness of purpose or location of the property, the availability of a comparable replacement property, the relative importance or significance of the property to the continuation of the lessee's line of business or service to its customers, the existence of leasehold improvements or other assets whose value would be impaired by the lessee vacating or discontinuing use of the leased property, adverse tax consequences, and the ability or willingness of the lessee to bear the cost associated with relocation or replacement of the leased property at market rental rates or to tolerate other parties using the leased property.

### Classification of Leases for Purposes of This Statement

6. For purposes of applying the accounting and reporting standards of this Statement, leases are classified as follows:

a. Classifications from the standpoint of the lessee:

i. *Capital leases.* Leases that meet one or more of the criteria in paragraph 7.

ii. *Operating leases.* All other leases.

b. Classifications from the standpoint of the lessor:

i. *Sales-type leases.* Leases that give rise to manufacturer's or dealer's profit (or loss) to the lessor (i.e., the fair value of the leased property at the inception of the lease is greater or less than its cost or carrying amount, if different) and that meet one or more of the criteria in paragraph 7 and both of the criteria in paragraph 8, except as indicated in the following sentence. A lease involving real estate shall be classified as a sales-type lease only if it meets the criterion in paragraph 7(a), in which case the criteria in paragraph 8 do not apply. Normally, sales-type leases will arise when manufacturers or dealers use leasing as a means of marketing their products. Leases involving lessors that are primarily engaged in financing operations normally will not be sales-type leases if they qualify under paragraphs 7 and 8, but will most often be direct financing leases, described in paragraph 6

(b)(ii) below. However, a lessor need not be a dealer to realize dealer's profit (or loss) on a transaction, e.g., if a lessor, not a dealer, leases an asset that at the inception of the lease has a fair value that is greater or less than its cost or carrying amount, if different, such a transaction is a sales-type lease, assuming the criteria referred to are met. A renewal or an extension<sup>9</sup> of an existing sales-type or direct financing lease that otherwise qualifies as a sales-type lease shall be classified as a direct financing lease unless the renewal or extension occurs at or near the end of the original term<sup>9a</sup> specified in the existing lease, in which case it shall be classified as a sales-type lease. (See paragraph 17(f).)

<sup>9</sup> As used here, renewal or extension includes a new lease under which the lessee continues to use the same property.

<sup>9a</sup> A renewal or extension that occurs in the last few months of an existing lease is considered to have occurred at or near the end of the existing lease term.

ii. *Direct financing leases.* Leases other than leveraged leases that do not give rise to manufacturer's or dealer's profit (or loss) to the lessor but that meet one or more of the criteria in paragraph 7 and both of the criteria in paragraph 8. In such leases, the cost or carrying amount, if different, and fair value of the leased property are the same at the inception of the lease. An exception arises when an existing sales-type or direct financing lease is renewed or extended<sup>10</sup> during the term of the existing lease. In such cases, the fact that the carrying amount of the property at the end of the original lease term is different from its fair value at that date shall not preclude the classification of the renewal or extension as a direct financing lease. (See paragraph 17(f).)

<sup>10</sup> See footnote 9.

iii. *Leveraged leases.* Leases that meet the criteria of paragraph 42.

iv. *Operating leases.* All other leases, including leases that involve real estate and give rise to manufacturer's or dealer's profit (or loss) to the lessor but do not meet the criterion in paragraph 7(a).

### Criteria for Classifying Leases (Other Than Leveraged Leases)

7| The criteria for classifying leases set forth in this paragraph and in paragraph 8 derive from the concept set forth in paragraph 60 C. If at its inception (as defined in paragraph 5(b)) a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease by the lessee. Otherwise, it shall be classified as an operating lease. (See Appendix C C for an illustration of the application of these criteria.)

a. The lease transfers ownership of the property to the lessee by the end of the lease term (as defined in paragraph 5(f)).<sup>10a</sup>

<sup>10a</sup> This criterion is met in situations in which the lease agreement provides for the transfer of title at or shortly after the end of the lease term in exchange for the payment of a nominal fee, for example, the minimum required by statutory

regulation to transfer title.

- b. The lease contains a bargain purchase option (as defined in paragraph 5(d)).
- c. The lease term (as defined in paragraph 5(f)) is equal to 75 percent or more of the estimated economic life of the leased property (as defined in paragraph 5(g)). However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
- d. The present value at the beginning of the lease term of the minimum lease payments (as defined in paragraph 5(j)), excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property (as defined in paragraph 5(c)) to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by him. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. A lessor shall compute the present value of the minimum lease payments using the interest rate implicit in the lease (as defined in paragraph 5(k)). A lessee shall compute the present value of the minimum lease payments using his incremental borrowing rate (as defined in paragraph 5(1)), unless (i) it is practicable for him to learn the implicit rate computed by the lessor and (ii) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both of those conditions are met, the lessee shall use the implicit rate.

8. From the standpoint of the lessor, a lease involving real estate shall be classified as a sales-type lease only if it meets the criterion in paragraph 7(a) as appropriate under paragraph 6(b)(i). Otherwise, if the lease at inception meets any one of the four criteria in paragraph 7 and in addition meets both of the following criteria, it shall be classified as a sales-type lease, a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). If the lease does not meet any of the criteria of paragraph 7 or both of the following criteria, the lease shall be classified as an operating lease.


- a. Collectibility of the minimum lease payments is reasonably predictable. A lessor shall not be precluded from classifying a lease as a sales-type lease, a direct financing lease, or a leveraged lease simply because the receivable is subject to an estimate of uncollectibility based on experience with groups of similar receivables.
- b. No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.<sup>10b</sup> Important uncertainties might include commitments by the lessor to guarantee performance of the leased property in a manner more extensive than the typical product warranty or to effectively protect the lessee from obsolescence of the leased property. However, the necessity of estimating executory costs such as insurance, maintenance, and taxes to be paid by the lessor (see paragraphs 17(a) and 18(a)) shall not by itself constitute an important uncertainty as referred to herein.

<sup>10b</sup> If the property covered by the lease is yet to be constructed or has not been acquired by the lessor at the inception of the lease, the classification criterion of paragraph 8(b) shall be applied at the date that construction of the property is completed or the property is acquired by the lessor.

9. If at any time the lessee and lessor agree to change the provisions of the lease, other than by renewing the lease or extending its term, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 7 and 8 had the changed terms been in effect at the inception of the lease, the revised agreement shall be considered as a new agreement over its term, and the criteria in paragraphs 7 and 8 shall be applied for purposes of classifying the new lease. Likewise, except when a guarantee or penalty is rendered inoperative as described in paragraphs 12 and 17(c), any action that extends the lease beyond the expiration of the existing lease term (see paragraph 5(f)), such as the exercise of a lease renewal option other than those already included in the lease term, shall be considered as a new agreement, which shall be classified according to the provisions of paragraphs 6-8. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee), however, shall not give rise to a new classification of a lease for accounting purposes.

## Accounting and Reporting by Lessees

### Capital Leases

10. The lessee shall record a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, together with any profit thereon. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and obligation shall be the fair value.<sup>10c</sup> If the portion of the minimum lease payments representing executory costs, including profit thereon, is not determinable from the provisions of the lease, an estimate of the amount shall be made. The discount rate to be used in determining present value of the minimum lease payments shall be that prescribed for the lessee in paragraph 7(d). (See Appendix C  for illustrations.)

<sup>10c</sup> If the lease agreement or commitment, if earlier, includes a provision to escalate minimum lease payments for increases in construction or acquisition cost of the leased property or for increases in some other measure of cost or value, such as general price levels, during the construction or pre-acquisition period, the effect of any increases that have occurred shall be considered in the determination of "fair value of the leased property at the inception of the lease" for purposes of this paragraph.

11. Except as provided in paragraphs 25 and 26 with respect to leases involving land, the asset recorded under a capital lease shall be amortized as follows:

- a. If the lease meets the criterion of either paragraph 7(a) or 7(b), the asset shall be amortized in a manner consistent with the lessee's normal depreciation policy for owned assets.
- b. If the lease does not meet either criterion 7(a) or 7(b), the asset shall be amortized in a manner consistent with the lessee's normal depreciation policy except that the period of amortization shall be the lease term. The asset shall be amortized to its expected value, if any, to the lessee at the end of the lease term. As an example, if the lessee guarantees a residual value at the end of the lease term and has no interest in any excess which might be realized, the expected value of the leased property to him is the amount that can be realized from it up to the amount of the guarantee.

12. During the lease term, each minimum lease payment shall be allocated between a reduction of the

obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the obligation.<sup>11</sup> (See Appendix C for illustrations.) In leases containing a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term,<sup>12</sup> following the above method of amortization will result in a balance of the obligation at the end of the lease term that will equal the amount of the guarantee or penalty at that date. In the event that a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the obligation under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the obligation. The present value of the future minimum lease payments under the revised agreement shall be computed using the rate of interest used to record the lease initially. In accordance with paragraph 9, other renewals and extensions of the lease term shall be considered new agreements, which shall be accounted for in accordance with the provisions of paragraph 14. Contingent rentals shall be included in the determination of income as accruable.

<sup>11</sup> This is the "interest" method described in the first sentence of paragraph 15 of *APB Opinion No. 21*, "Interest on Receivables and Payables," and in paragraphs 16 and 17 of *APB Opinion No. 12*, "Omnibus Opinion—1967."

<sup>12</sup> Residual guarantees and termination penalties that serve to extend the lease term (as defined in paragraph 5(f)) are excluded from minimum lease payments and are thus distinguished from those guarantees and penalties referred to in this paragraph.

<sup>13</sup> [This footnote has been deleted. See Status □ page.]

13. Assets recorded under capital leases and the accumulated amortization thereon shall be separately identified in the lessee's balance sheet or in footnotes thereto. Likewise, the related obligations shall be separately identified in the balance sheet as obligations under capital leases and shall be subject to the same considerations as other obligations in classifying them with current and noncurrent liabilities in classified balance sheets. Unless the charge to income resulting from amortization of assets recorded under capital leases is included with depreciation expense and the fact that it is so included is disclosed, the amortization charge shall be separately disclosed in the financial statements or footnotes thereto.

14. Except for a change in the provisions of a lease that results from a refunding by the lessor of tax-exempt debt, including an *advance* refunding, in which the perceived economic advantages of the refunding are passed through to the lessee by a change in the provisions of the lease agreement and the revised agreement is classified as a capital lease (see *FASB Statement No. 22* □), a change in the provisions of a lease, a renewal or extension<sup>14</sup> of an existing lease, and a termination of a lease prior to the expiration of the lease term shall be accounted for as follows:

<sup>14</sup> See footnote 9.

- a. If the provisions of the lease are changed in a way that changes the amount of the remaining minimum lease payments and the change either (i) does not give rise to a new agreement under the provisions of paragraph 9 or (ii) does give rise to a new agreement but such agreement is also classified as a capital lease, the present balances of the asset and the obligation shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised or new agreement and the present balance of the obligation. The

present value of the future minimum lease payments under the revised or new agreement shall be computed using the rate of interest used to record the lease initially. If the change in the lease provisions gives rise to a new agreement classified as an operating lease, the transaction shall be accounted for under the sale-leaseback requirements of FASB Statement No. 98, *Accounting for Leases; Sale-Leaseback Transactions Involving Real Estate; Sales-Type Leases of Real Estate; Definition of the Lease Term; Initial Direct Costs of Direct Financing Leases* ¶, or paragraphs 2 and 3 ¶ of FASB Statement No. 28, *Accounting for Sales with Leasebacks*, as applicable.

b. Except when a guarantee or penalty is rendered inoperative as described in paragraph 12, a renewal or an extension<sup>15</sup> of an existing lease shall be accounted for as follows:

<sup>15</sup> See footnote 9.

i. If the renewal or extension is classified as a capital lease, it shall be accounted for as described in subparagraph (a) above.

ii. If the renewal or extension is classified as an operating lease, the existing lease shall continue to be accounted for as a capital lease to the end of its original term, and the renewal or extension shall be accounted for as any other operating lease.

c. A termination of a capital lease shall be accounted for by removing the asset and obligation, with gain or loss recognized for the difference.

### Operating Leases

15. Normally, rental on an operating lease shall be charged to expense over the lease term as it becomes payable. If rental payments are not made on a straight-line basis, rental expense nevertheless shall be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used.

### Disclosures

16. The following information with respect to leases shall be disclosed in the lessee's financial statements or the footnotes thereto (see Appendix D ¶ for illustrations).

a. For capital leases:

i. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function. This information may be combined with the comparable information for owned assets.

ii. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years, with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value (see paragraph 10).

iii. The total of minimum sublease rentals to be received in the future under noncancelable

subleases as of the date of the latest balance sheet presented.

iv. Total contingent rentals actually incurred for each period for which an income statement is presented.

b. For operating leases having initial or remaining noncancelable lease terms in excess of one year:

i. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years.

ii. The total of minimum rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented.

c. For all operating leases, rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals. Rental payments under leases with terms of a month or less that were not renewed need not be included.

d. A general description of the lessee's leasing arrangements including, but not limited to, the following:

i. The basis on which contingent rental payments are determined.

ii. The existence and terms of renewal or purchase options and escalation clauses.

iii. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing.

## Accounting and Reporting by Lessors

### Sales-Type Leases

17. Sales-type leases shall be accounted for by the lessor as follows:

a. The minimum lease payments (net of amounts, if any, included therein with respect to executory costs such as maintenance, taxes, and insurance to be paid by the lessor, together with any profit thereon) plus the unguaranteed residual value (as defined in paragraph 5(i)) accruing to the benefit of the lessor shall be recorded as the gross investment in the lease. The estimated residual value used to compute the unguaranteed residual value accruing to the benefit of the lessor shall not exceed the amount estimated at the inception of the lease except as provided in footnote 15a.<sup>15a</sup> However, if the sales-type lease involves real estate, the lessor shall account for the transaction under the provisions of *FASB Statement No. 66, "Accounting for Sales of Real Estate"*, in the same manner as a *seller* of the same property.

<sup>15a</sup> If the lease agreement or commitment, if earlier, includes a provision to escalate minimum lease payments for increases in construction or acquisition cost of the leased property or for increases in some other measure of cost or value, such as general price levels, during the construction or pre-acquisition period, the effect of

any increases that have occurred shall be considered in the determination of "the estimated residual value of the leased property at the inception of the lease" for purposes of this paragraph.

b. The difference between the gross investment in the lease in (a) above and the sum of the present values of the two components of the gross investment shall be recorded as unearned income. The discount rate to be used in determining the present values shall be the interest rate implicit in the lease. The net investment in the lease shall consist of the gross investment less the unearned income. The unearned income shall be amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.<sup>16</sup> However, other methods of income recognition may be used if the results obtained are not materially different from those which would result from the prescribed method. The net investment in the lease shall be subject to the same considerations as other assets in classification as current or noncurrent assets in a classified balance sheet. Contingent rentals shall be included in the determination of income as accruable.

<sup>16</sup> See footnote 11.

c. The present value of the minimum lease payments (net of executory costs, including any profit thereon), computed at the interest rate implicit in the lease, shall be recorded as the sales price. The cost or carrying amount, if different, of the leased property, plus any initial direct costs (as defined in paragraph 5(m)), less the present value of the unguaranteed residual value accruing to the benefit of the lessor, computed at the interest rate implicit in the lease, shall be charged against income in the same period.

d. The estimated residual value shall be reviewed at least annually. If the review results in a lower estimate than had been previously established, a determination must be made as to whether the decline in estimated residual value is other than temporary. If the decline in estimated residual value is judged to be other than temporary, the accounting for the transaction shall be revised using the changed estimate. The resulting reduction in the net investment shall be recognized as a loss in the period in which the estimate is changed. An upward adjustment of the estimated residual value shall not be made.

e. In leases containing a residual guarantee or a penalty for failure to renew the lease at the end of the lease term,<sup>17</sup> following the method of amortization described in (b) above will result in a balance of minimum lease payments receivable at the end of the lease term that will equal the amount of the guarantee or penalty at that date. In the event that a renewal or other extension<sup>18</sup> of the lease term renders the guarantee or penalty inoperative, the existing balances of the minimum lease payments receivable and the estimated residual value shall be adjusted for the changes resulting from the revised agreement (subject to the limitation on the residual value imposed by subparagraph (d) above) and the net adjustment shall be charged or credited to unearned income.

<sup>17</sup> See footnote 12.

<sup>18</sup> See footnote 9.

f. Except for a change in the provisions of a lease that results from a refunding by the lessor of tax-exempt debt, including an advance refunding, in which the perceived economic advantages

of the refunding are passed through to the lessee by a change in the provisions of the lease agreement and the revised agreement is classified as a direct financing lease (see *FASB Statement No. 22* <sup>19</sup>), a change in the provisions of a lease, a renewal or extension <sup>19</sup> of an existing lease, and a termination of a lease prior to the expiration of the lease term shall be accounted for as follows:

<sup>19</sup> See footnote 9.

i. If the provisions of a lease are changed in a way that changes the amount of the remaining minimum lease payments and the change either (a) does not give rise to a new agreement under the provisions of paragraph 9 or (b) does give rise to a new agreement but such agreement is classified as a direct financing lease, the balance of the minimum lease payments receivable and the estimated residual value, if affected, shall be adjusted to reflect the change (subject to the limitation on the residual value imposed by subparagraph (d) above), and the net adjustment shall be charged or credited to unearned income. If the change in the lease provisions gives rise to a new agreement classified as an operating lease, the remaining net investment shall be removed from the accounts, the leased asset shall be recorded as an asset at the lower of its original cost, present fair value, or present carrying amount, and the net adjustment shall be charged to income of the period. The new lease shall thereafter be accounted for as any other operating lease.

ii. Except when a guarantee or penalty is rendered inoperative as described in subparagraph (e) above, a renewal or an extension <sup>20</sup> of an existing lease shall be accounted for as follows:

<sup>20</sup> See footnote 9.

a. If the renewal or extension is classified as a direct financing lease, it shall be accounted for as described in subparagraph (f)(i) above.

b. If the renewal or extension is classified as an operating lease, the existing lease shall continue to be accounted for as a sales-type lease to the end of its original term, and the renewal or extension shall be accounted for as any other operating lease.

c. If a renewal or extension that occurs at or near the end of the term <sup>20a</sup> of the existing lease is classified as a sales-type lease, the renewal or extension shall be accounted for as a sales-type lease.

<sup>20a</sup> See footnote 9a.

iii. A termination of the lease shall be accounted for by removing the net investment from the accounts, recording the leased asset at the lower of its original cost, present fair value, or present carrying amount, and the net adjustment shall be charged to income of the period.

### **Direct Financing Leases**

18. Direct financing leases shall be accounted for by the lessor as follows (see Appendix C <sup>1</sup> for

illustrations):

a. The sum of (i) the minimum lease payments (net of amounts, if any, included therein with respect to executory costs, such as maintenance, taxes, and insurance, to be paid by the lessor, together with any profit thereon) and (ii) the unguaranteed residual value accruing to the benefit of the lessor shall be recorded as the gross investment in the lease. The estimated residual value used to compute the unguaranteed residual value accruing to the benefit of the lessor shall not exceed the amount estimated at the inception of the lease.<sup>20b</sup>

<sup>20b</sup> If the lease agreement or commitment, if earlier, includes a provision to escalate minimum lease payments for increases in construction or acquisition cost of the leased property or for increases in some other measure of cost or value, such as general price levels, during the construction or pre-acquisition period, the effect of any increases that have occurred shall be considered in the determination of "the estimated residual value of the leased property at the inception of the lease" for purposes of this paragraph.

b. The difference between the gross investment in the lease in (a) above and the cost or carrying amount, if different, of the leased property shall be recorded as unearned income. The net investment in the lease shall consist of the gross investment plus any unamortized initial direct costs less the unearned income. The unearned income and initial direct costs shall be amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.<sup>21</sup> However, other methods of income recognition may be used if the results obtained are not materially different from those that would result from the prescribed method in the preceding sentence. The net investment in the lease shall be subject to the same considerations as other assets in classification as current or noncurrent assets in a classified balance sheet. Contingent rentals shall be included in the determination of income as accruable.

<sup>21</sup> See footnote 11.

c. In leases containing a residual guarantee or a penalty for failure to renew the lease at the end of the lease term,<sup>22</sup> the lessor shall follow the accounting procedure described in paragraph 17 (e). The accounting provisions of paragraph 17(f) with respect to renewals and extensions not dealt with in paragraph 17(e), terminations, and other changes in lease provisions shall also be followed with respect to direct financing leases.

<sup>22</sup> See footnote 12.

d. The estimated residual value shall be reviewed at least annually and, if necessary, adjusted in the manner prescribed in paragraph 17(d).

### **Operating Leases**

19. Operating leases shall be accounted for by the lessor as follows:

a. The leased property shall be included with or near property, plant, and equipment in the balance sheet. The property shall be depreciated following the lessor's normal depreciation policy, and in the balance sheet the accumulated depreciation shall be deducted from the

investment in the leased property.

b. Rent shall be reported as income over the lease term as it becomes receivable according to the provisions of the lease. However, if the rentals vary from a straight-line basis, the income shall be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit from the leased property is diminished, in which case that basis shall be used.

c. Initial direct costs shall be deferred and allocated over the lease term in proportion to the recognition of rental income. However, initial direct costs may be charged to expense as incurred if the effect is not materially different from that which would have resulted from the use of the method prescribed in the preceding sentence.

d. If, at the inception of the lease, the fair value of the property in an operating lease involving real estate that would have been classified as a sales-type lease except that it did not meet the criterion in paragraph 7(a) is less than its cost or carrying amount, if different, then a loss equal to that difference shall be recognized at the inception of the lease.

### **Participation by Third Parties**

20. The sale or assignment of a lease or of property subject to a lease that was accounted for as a sales-type lease or direct financing lease shall not negate the original accounting treatment accorded the lease. Any transfer of minimum lease payments under, or residual values that are guaranteed at the inception of, a sales-type lease or direct financing lease shall be accounted for in accordance with FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* [1]. However, transfers of unguaranteed residual values and residual values that are guaranteed after the inception of the lease are not subject to the provisions of Statement 140.

21. The sale of property subject to an operating lease, or of property that is leased by or intended to be leased by the third-party purchaser to another party, shall not be treated as a sale if the seller or any party related to the seller retains substantial risks of ownership in the leased property. A seller may by various arrangements assure recovery of the investment by the third-party purchaser in some operating lease transactions and thus retain substantial risks in connection with the property. For example, in the case of default by the lessee or termination of the lease, the arrangements may involve a formal or informal commitment by the seller to (a) acquire the lease or the property, (b) substitute an existing lease, or (c) secure a replacement lessee or a buyer for the property under a remarketing agreement. However, a remarketing agreement by itself shall not disqualify accounting for the transaction as a sale if the seller (a) will receive a reasonable fee commensurate with the effort involved at the time of securing a replacement lessee or buyer for the property and (b) is not required to give priority to the re-leasing or disposition of the property owned by the third-party purchaser over similar property owned or produced by the seller. (For example, a first-in, first-out remarketing arrangement is considered to be a priority.)

22. If a sale to a third party of property subject to an operating lease or of property that is leased by or intended to be leased by the third-party purchaser to another party is not to be recorded as a sale because of the provisions of paragraph 21 above, the transaction shall be accounted for as a borrowing. (Transactions of these types are in effect collateralized borrowings.) The proceeds from the "sale" shall be recorded as an obligation on the books of the "seller." Until that obligation has been amortized under the procedure described herein, rental payments made by the lessee(s) under the operating lease

or leases shall be recorded as revenue by the "seller," even if such rentals are paid directly to the third-party purchaser. A portion of each rental shall be recorded by the "seller" as interest expense, with the remainder to be recorded as a reduction of the obligation. The interest expense shall be calculated by application of a rate determined in accordance with the provisions of *APB Opinion No. 21*, "Interest on Receivables and Payables," paragraphs 13 and 14. The leased property shall be accounted for as prescribed in paragraph 19(a) for an operating lease, except that the term over which the asset is depreciated shall be limited to the estimated amortization period of the obligation. The sale or assignment by the lessor of lease payments due under an operating lease shall be accounted for as a borrowing as described above.

### Disclosures

23. When leasing, exclusive of leveraged leasing, is a significant part of the lessor's business activities in terms of revenue, net income, or assets, the following information with respect to leases shall be disclosed in the financial statements or footnotes thereto (see Appendix D for illustrations):

a. For sales-type and direct financing leases:

i. The components of the net investment in sales-type and direct financing leases as of the date of each balance sheet presented:

a. Future minimum lease payments to be received, with separate deductions for (i) amounts representing executory costs, including any profit thereon, included in the minimum lease payments and (ii) the accumulated allowance for uncollectible minimum lease payments receivable.

b. The unguaranteed residual values accruing to the benefit of the lessor.

c. For direct financing leases only, initial direct costs (see paragraph 5(m)).

d. Unearned income (see paragraphs 17(b) and 18(h)).

ii. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented.

iii. [This subparagraph has been deleted. See Status page.]

iv. Total contingent rentals included in income for each period for which an income statement is presented.

b. For operating leases:

i. The cost and carrying amount, if different, of property on lease or held for leasing by major classes of property according to nature or function, and the amount of accumulated depreciation in total as of the date of the latest balance sheet presented.

ii. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years.

iii. Total contingent rentals included in income for each period for which an income

statement is presented.

- c. A general description of the lessor's leasing arrangements.

### **Leases Involving Real Estate**

24. For purposes of this Statement, leases involving real estate can be divided into four categories: (a) leases involving land only, (b) leases involving land and building(s), (c) leases involving equipment as well as real estate, and (d) leases involving only part of a building.

#### **Leases Involving Land Only**

25. If land is the sole item of property leased and the criterion in either paragraph 7(a) or 7(b) is met, the lessee shall account for the lease as a capital lease, otherwise, as an operating lease. If the lease gives rise to manufacturer's or dealer's profit (or loss) and the criterion of paragraph 7(a) is met, the lessor shall classify the lease as a sales-type lease as appropriate under paragraph 6(b)(i) and account for the transaction under the provisions of Statement 66 in the same manner as a seller of the same property. If the lease does not give rise to manufacturer's or dealer's profit (or loss) and the criterion of paragraph 7(a) and both criteria of paragraph 8 are met, the lessor shall account for the lease as a direct financing lease or a leveraged lease as appropriate under paragraph 6(b). If the criterion of paragraph 7(b) and both criteria of paragraph 8 are met, the lessor shall account for the lease as a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). If the lease does not meet the criteria of paragraph 8, the lessor shall account for the lease as an operating lease. Criteria 7(c) and 7(d) are not applicable to land leases. Because ownership of the land is expected to pass to the lessee if either criterion 7(a) or 7(b) is met, the asset recorded under the capital lease would not normally be amortized.

#### **Leases Involving Land and Building(s)**

26. Leases involving both land and building(s) shall be accounted for as follows:

- a. Lease meets either criterion 7(a) or 7(b):

i. Lessee's accounting: If either criterion (a) or (b) of paragraph 7 is met, the land and building shall be separately capitalized by the lessee. For this purpose, the present value of the minimum lease payments after deducting executory costs, including any profit thereon, shall be allocated between the two elements in proportion to their fair values at the inception of the lease.<sup>22a</sup> The building shall be amortized in accordance with the provisions of paragraph 11(a). As stated in paragraph 25, land capitalized under a lease that meets criterion (a) or (b) of paragraph 7 would not normally be amortized.

<sup>22a</sup> If the lease agreement or commitment, if earlier, includes a provision to escalate minimum lease payments for increases in construction or acquisition cost of the leased property or for increases in some other measure of cost or value, such as general price levels, during the construction or pre-acquisition period, the effect of any increases that have occurred shall be considered in the determination of "fair value of the leased property at the inception of the lease" for purposes of this paragraph.

- ii. Lessor's accounting if the lease meets criterion 7(a): If the lease gives rise to

manufacturer's or dealer's profit (or loss), the lessor shall classify the lease as a sales-type lease as appropriate under paragraph 6(b)(i) and account for the lease as a single unit under the provisions of Statement 66 in the same manner as a *seller* of the same property. If the lease does not give rise to manufacturer's or dealer's profit (or loss) and meets both criteria of paragraph 8, the lessor shall account for the lease as a direct financing lease or a leveraged lease as appropriate under paragraph 6(b)(ii) or 6(b)(iii). If the lease does not give rise to manufacturer's or dealer's profit (or loss) and does not meet both criteria of paragraph 8, the lessor shall account for the lease as an operating lease.

iii. Lessor's accounting if the lease meets criterion 7(b): If the lease gives rise to manufacturer's or dealer's profit (or loss), the lessor shall classify the lease as an operating lease as appropriate under paragraph 6(b)(iv). If the lease does not give rise to manufacturer's or dealer's profit (or loss) and meets both criteria of paragraph 8, the lessor shall account for the lease as a direct financing lease or a leveraged lease as appropriate under paragraph 6(b)(ii) or 6(b)(iii). If the lease does not give rise to manufacturer's or dealer's profit (or loss) and does not meet both criteria of paragraph 8, the lessor shall account for the lease as an operating lease.

b. Lease meets neither criterion 7(a) nor 7(b):

i. If the fair value of the land is less than 25 percent of the total fair value of the leased property at the inception of the lease: Both the lessee and the lessor shall consider the land and the building as a single unit for purposes of applying the criteria of paragraphs 7(c) and 7(d). For purposes of applying the criterion of paragraph 7(c), the estimated economic life of the building shall be considered as the estimated economic life of the unit.

(a) Lessee's accounting: If either criterion (c) or (d) of paragraph 7 is met, the lessee shall capitalize the land and building as a single unit and amortize it in accordance with the provisions of paragraph 11(b); otherwise, the lease shall be accounted for as an operating lease.

(b) Lessor's accounting: If either criterion (c) or (d) of paragraph 7 and both criteria of paragraph 8 are met, the lessor shall account for the lease as a single unit as a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). If the lease meets neither criterion (c) nor (d) of paragraph 7 or does not meet both criteria of paragraph 8, the lease shall be accounted for as an operating lease.

ii. If the fair value of the land is 25 percent or more of the total fair value of the leased property at the inception of the lease: Both the lessee and lessor shall consider the land and the building separately for purposes of applying the criteria of paragraphs 7(c) and 7(d). The minimum lease payments after deducting executory costs, including any profit thereon, applicable to the land and the building shall be separated both by the lessee and the lessor by determining the fair value of the land and applying the lessee's incremental borrowing rate to it to determine the annual minimum lease payments applicable to the land element; the remaining minimum lease payments shall be attributed to the building element.

(a) Lessee's accounting: If the building element of the lease meets criterion (c) or (d) of paragraph 7, the building element shall be accounted for as a capital lease and

amortized in accordance with the provisions of paragraph 11(b). The land element of the lease shall be accounted for separately as an operating lease. If the building element of the lease meets neither criterion (c) nor (d) of paragraph 7, both the building element and the land element shall be accounted for as a single operating lease.

(b) Lessor's accounting: If the building element of the lease meets either criterion (c) or (d) of paragraph 7 and both criteria of paragraph 8, the building element shall be accounted for as a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). The land element of the lease shall be accounted for separately as an operating lease. If the building element of the lease meets neither criterion (c) nor (d) of paragraph 7 or does not meet the criteria of paragraph 8, both the building element and the land element shall be accounted for as a single operating lease.

### ***Leases Involving Equipment As Well As Real Estate***

27. If a lease involving real estate also includes equipment, the portion of the minimum lease payments applicable to the equipment element of the lease shall be estimated by whatever means are appropriate in the circumstances. The equipment shall be considered separately for purposes of applying the criteria in paragraphs 7 and 8 and shall be accounted for separately according to its classification by both lessees and lessors.

### ***Leases Involving Only Part of a Building***

28. When the leased property is part of a larger whole, its cost (or carrying amount) and fair value may not be objectively determinable, as for example, when an office or floor of a building is leased. If the cost and fair value of the leased property are objectively determinable, both the lessee and the lessor shall classify and account for the lease according to the provisions of paragraph 26. Unless both the cost and the fair value are objectively determinable, the lease shall be classified and accounted for as follows:

#### **a. Lessee:**

- i. If the fair value of the leased property is objectively determinable, the lessee shall classify and account for the lease according to the provisions of paragraph 26.
- ii. If the fair value of the leased property is not objectively determinable, the lessee shall classify the lease according to the criterion of paragraph 7(c) only, using the estimated economic life of the building in which the leased premises are located. If that criterion is met, the leased property shall be capitalized as a unit and amortized in accordance with the provisions of paragraph 11(b).

b. Lessor: If either the cost or the fair value of the property is not objectively determinable, the lessor shall account for the lease as an operating lease.

Because of special provisions normally present in leases involving terminal space and other airport facilities owned by a governmental unit or authority, the economic life of such facilities for purposes of classifying the lease is essentially indeterminate. Likewise, the concept of fair value is not applicable to such leases. Since such leases also do not provide for a transfer of ownership or a bargain purchase

option, they shall be classified as operating leases. Leases of other facilities owned by a governmental unit or authority wherein the rights of the parties are essentially the same as in a lease of airport facilities described above shall also be classified as operating leases. Examples of such leases may be those involving facilities at ports and bus terminals.

### Leases between Related Parties

29. Except as noted below, leases between related parties (as defined in paragraph 5(a)) shall be classified in accordance with the criteria in paragraphs 7 and 8. Insofar as the separate financial statements of the related parties are concerned, the classification and accounting shall be the same as for similar leases between unrelated parties, except in cases where it is clear that the terms of the transaction have been significantly affected by the fact that the lessee and lessor are related. In such cases the classification and/or accounting shall be modified as necessary to recognize economic substance rather than legal form. The nature and extent of leasing transactions with related parties shall be disclosed.

30. In consolidated financial statements or in financial statements for which an interest in an investee is accounted for on the equity basis, any profit or loss on a leasing transaction with the related party shall be accounted for in accordance with the principles set forth in *ARB No. 51, "Consolidated Financial Statements"*,<sup>1</sup> or *APB Opinion No. 18*,<sup>2</sup> whichever is applicable.

31. The accounts of subsidiaries (regardless of when organized or acquired) whose principal business activity is leasing property or facilities to the parent or other affiliated companies shall be consolidated. The equity method is not adequate for fair presentation of those subsidiaries because their assets and liabilities are significant to the consolidated financial position of the enterprise.

### Sale-Leaseback Transactions

32. Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. A sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life shall be accounted for by the seller-lessee in accordance with the provisions of paragraph 33 and shall be accounted for by the purchaser-lessor in accordance with the provisions of paragraph 34.

33. If the lease meets one of the criteria for treatment as a capital lease (see paragraph 7), the seller-lessee shall account for the lease as a capital lease; otherwise as an operating lease. Any profit or loss on the sale<sup>22b</sup> shall be deferred and amortized in proportion to the amortization of the leased asset,<sup>23</sup> if a capital lease, or in proportion to the related gross rental charged to expense over the lease term, if an operating lease, unless:

<sup>22b</sup> "Profit or loss on the sale" is used in this paragraph to refer to the profit or loss that would be recognized on the sale if there were no leaseback. For example, on a sale of real estate subject to FASB Statement No. 66, *Accounting for Sales of Real Estate*,<sup>1</sup> the profit on the sale to be deferred and amortized in proportion to the leaseback would be the profit that could otherwise be recognized in accordance with Statement No. 66.

<sup>23</sup> If the leased asset is land only, the amortization shall be on a straight-line basis over the lease term.

a. The seller-lessee relinquishes the right to *substantially all* of the remaining use of the property

sold (retaining only a *minor* portion of such use),<sup>23a</sup> in which case the sale and the leaseback shall be accounted for as separate transactions based on their respective terms. However, if the amount of rentals called for by the lease is unreasonable under market conditions at the inception of the lease, an appropriate amount shall be deferred or accrued, by adjusting the profit or loss on the sale, and amortized as specified in the introduction of this paragraph to adjust those rentals to a reasonable amount.

<sup>23a</sup> "Substantially all" and "minor" are used here in the context of the concepts underlying the classification criteria of *FASB Statement No. 13*. In that context, a test based on the 90 percent recovery criterion of Statement No. 13 could be used as a guideline; that is, if the present value of a reasonable amount of rental for the leaseback represents 10 percent or less of the fair value of the asset sold, the seller-lessee could be presumed to have transferred to the purchaser-lessor the right to substantially all of the remaining use of the property sold, and the seller-lessee could be presumed to have retained only a minor portion of such use.

b. The seller-lessee retains more than a minor part but less than substantially all<sup>23b</sup> of the use of the property through the leaseback and realizes a profit on the sale<sup>23c</sup> in excess of (i) the present value of the minimum lease payments over the lease term, if the leaseback is classified as an operating lease, or (ii) the recorded amount of the leased asset, if the leaseback is classified as a capital lease. In that case, the profit on the sale in excess of either the present value of the minimum lease payments or the recorded amount of the leased asset, whichever is appropriate, shall be recognized at the date of the sale. For purposes of applying this provision, the present value of the minimum lease payments for an operating lease shall be computed using the interest rate that would be used to apply the 90 percent recovery criterion of paragraph 7(d).

<sup>23b</sup> "Substantially all" is used here in the context of the concepts underlying the classification criteria of *FASB Statement No. 13*. In that context, if a leaseback of *the entire property sold* meets the criteria of Statement No. 13 for classification as a capital lease, the seller-lessee would be presumed to have retained substantially all of the remaining use of the property sold.

<sup>23c</sup> See footnote 22b.

c. The fair value of the property at the time of the transaction is less than its undepreciated cost, in which case a loss shall be recognized immediately up to the amount of the difference between undepreciated cost and fair value.

34. If the lease meets the criteria in paragraphs 7 and 8, the purchaser-lessor shall record the transaction as a purchase and a direct financing lease; otherwise, he shall record the transaction as a purchase and an operating lease.

### Accounting and Reporting for Subleases and Similar Transactions

35. This section deals with the following types of leasing transactions:

a. The leased property is re-leased by the original lessee to a third party, and the lease agreement between the two original parties remains in effect (a sublease).

b. A new lessee is substituted under the original lease agreement. The new lessee becomes the primary obligor under the agreement, and the original lessee may or may not be secondarily liable.

c. A new lessee is substituted through a new agreement, with cancellation of the original lease agreement.

### ***Accounting by the Original Lessor***

36. If the original lessee enters into a sublease or the original lease agreement is sold or transferred by the original lessee to a third party, the original lessor shall continue to account for the lease as before.

37. If the original lease agreement is replaced by a new agreement with a new lessee, the lessor shall account for the termination of the original lease as provided in paragraph 17(f) and shall classify and account for the new lease as a separate transaction.

### ***Accounting by the Original Lessee***

38. If the nature of the transaction is such that the original lessee is relieved of the primary obligation under the original lease, as would be the case in transactions of the type described in paragraphs 35(b) and 35(c), the termination of the original lease agreement shall be accounted for as follows:

a. If the original lease was a capital lease of property other than real estate (including integral equipment), the asset and obligation representing the original lease shall be removed from the accounts, a gain or loss shall be recognized for the difference, and, if the original lessee is secondarily liable, the guarantee obligation shall be recognized in accordance with paragraph 114 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Any consideration paid or received upon termination shall be included in the determination of gain or loss to be recognized.

b. If the original lease was a capital lease of real estate (including integral equipment), the determination as to whether the asset held under the capital lease and the related obligation may be removed from the balance sheet shall be made in accordance with the requirements of FASB Statement No. 66, *Accounting for Sales of Real Estate*. If the criteria for recognition of a sale in Statement 66 are met, the asset and obligation representing the original lease shall be removed from the accounts and any consideration paid or received upon termination and any guarantee obligation shall be recognized in accordance with the requirements above for property other than real estate. If the transaction results in a gain, that gain may be recognized if the criteria in Statement 66 for recognition of profit by the full accrual method are met. Otherwise, the gain shall be recognized in accordance with one of the other profit recognition methods discussed in Statement 66. Any loss on the transaction shall be recognized immediately.

c. If the original lease was an operating lease and the original lessee is secondarily liable, the guarantee obligation shall be recognized in accordance with paragraph 114 of Statement 140.

39. If the nature of the transaction is such that the original lessee is not relieved of the primary obligation under the original lease, as would be the case in transactions of the type described in paragraph 35(a), the original lessee, as sublessor, shall account for the transaction as follows:

a. If the original lease met either criterion (a) or (b) of paragraph 7, the original lessee shall

classify the new lease in accordance with the criteria of paragraphs 7 and 8. If the new lease meets one of the criteria of paragraph 7 and both of the criteria of paragraph 8, it shall be accounted for as a sales-type or direct financing lease, as appropriate, and the unamortized balance of the asset under the original lease shall be treated as the cost of the leased property. If the new lease does not qualify as a sales-type or direct financing lease, it shall be accounted for as an operating lease. In either case, the original lessee shall continue to account for the obligation related to the original lease as before.

b. If the original lease met either criterion (c) or (d) but not criterion (a) or (b) of paragraph 7, the original lessee shall, with one exception, classify the new lease in accordance with the criteria of paragraphs 7(c) and 8 only. If it meets those criteria, it shall be accounted for as a direct financing lease, with the unamortized balance of the asset under the original lease treated as the cost of the leased property; otherwise, as an operating lease. In either case, the original lessee shall continue to account for the obligation related to the original lease as before. The one exception arises when the timing and other circumstances surrounding the sublease are such as to suggest that the sublease was intended as an integral part of an overall transaction in which the original lessee serves only as an intermediary. In that case, the sublease shall be classified according to the criteria of paragraphs 7(c) and 7(d), as well as the criteria of paragraph 8. In applying the criterion of paragraph 7(d), the fair value of the leased property shall be the fair value to the original lessor at the inception of the original lease.

c. If the original lease is an operating lease, the original lessee shall account for both it and the new lease as operating leases.

### ***Accounting by the New Lessee***

40. The new lessee shall classify the lease in accordance with the criteria of paragraph 7 and account for it accordingly.

### ***Accounting and Reporting for Leveraged Leases***

41. From the standpoint of the lessee, leveraged leases shall be classified and accounted for in the same manner as non-leveraged leases. The balance of this section deals with leveraged leases from the standpoint of the lessor.

42. For purposes of this Statement, a leveraged lease is defined as one having all of the following characteristics:

a. Except for the exclusion of leveraged leases from the definition of a direct financing lease as set forth in paragraph 6(b)(ii), it otherwise meets that definition. Leases that meet the definition of sales-type leases set forth in paragraph 6(b)(i) shall not be accounted for as leveraged leases but shall be accounted for as prescribed in paragraph 17.

b. It involves at least three parties: a lessee, a long-term creditor, and a lessor (commonly called the equity participant).

c. The financing provided by the long-term creditor is nonrecourse as to the general credit of the lessor (although the creditor may have recourse to the specific property leased and the unremitted rentals relating to it). The amount of the financing is sufficient to provide the lessor with substantial "leverage" in the transaction.

- d. The lessor's net investment, as defined in paragraph 43, declines during the early years once the investment has been completed and rises during the later years of the lease before its final elimination. Such decreases and increases in the net investment balance may occur more than once.

A lease meeting the preceding definition shall be accounted for by the lessor using the method described in paragraphs 43-47; an exception arises if the investment tax credit is accounted for other than as stated in paragraphs 43 and 44,<sup>24</sup> in which case the lease shall be classified as a direct financing lease and accounted for in accordance with paragraph 18. A lease not meeting the definition of a leveraged lease shall be accounted for in accordance with its classification under paragraph 6(b)

<sup>24</sup> It is recognized that the investment tax credit may be accounted for other than as prescribed in this Statement, as provided by Congress in the Revenue Act of 1971.

43. The lessor shall record his investment in a leveraged lease net of the nonrecourse debt. The net of the balances of the following accounts shall represent the initial and continuing investment in leveraged leases:

- a. Rentals receivable, net of that portion of the rental applicable to principal and interest on the nonrecourse debt.
- b. A receivable for the amount of the investment tax credit to be realized on the transaction.
- c. The estimated residual value of the leased asset. The estimated residual value shall not exceed the amount estimated at the inception of the lease except as provided in footnote 24a.<sup>24a</sup>

<sup>24a</sup> If the lease agreement or commitment, if earlier, includes a provision to escalate minimum lease payments for increases in construction or acquisition cost of the leased property or for increases in some other measure of cost or value, such as general price levels, during the construction or pre-acquisition period, the effect of any increases that have occurred shall be considered in the determination of "the estimated residual value of the leased property at the inception of the lease" for purposes of this paragraph.

- d. Unearned and deferred income consisting of (i) the estimated pretax lease income (or loss), after deducting initial direct costs, remaining to be allocated to income over the lease term and (ii) the investment tax credit remaining to be allocated to income over the lease term.

The investment in leveraged leases less deferred taxes arising from differences between pretax accounting income and taxable income shall represent the lessor's net investment in leveraged leases for purposes of computing periodic net income from the lease, as described in paragraph 44.

44. Given the original investment and using the projected cash receipts and disbursements over the term of the lease, the rate of return on the net investment in the years<sup>25</sup> in which it is positive shall be computed. The rate is that rate which when applied to the net investment in the years in which the net investment is positive will distribute the net income to those years (see Appendix E, Schedule 3 ~~5~~) and is distinct from the interest rate implicit in the lease as defined in paragraph 5(k). In each year, whether positive or not, the difference between the net cash flow and the amount of income recognized, if any, shall serve to increase or reduce the net investment balance. The net income recognized shall be

composed of three elements: two, pretax lease income (or loss) and investment tax credit, shall be allocated in proportionate amounts from the unearned and deferred income included in net investment, as described in paragraph 43; the third element is the tax effect of the pretax lease income (or loss) recognized, which shall be reflected in tax expense for the year. The tax effect of the difference between pretax accounting income (or loss) and taxable income (or loss) for the year shall be charged or credited to deferred taxes. The accounting prescribed in paragraph 43 and in this paragraph is illustrated in Appendix E.

<sup>25</sup> The use of the term "years" is not intended to preclude application of the accounting prescribed in this paragraph to shorter accounting periods.

45. If the projected net cash receipts<sup>26</sup> over the term of the lease are less than the lessor's initial investment, the deficiency shall be recognized as a loss at the inception of the lease. Likewise, if at any time during the lease term the application of the method prescribed in paragraphs 43 and 44 would result in a loss being allocated to future years, that loss shall be recognized immediately. This situation might arise in cases where one of the important assumptions affecting net income is revised (see paragraph 46).

<sup>26</sup> For purposes of this paragraph, net cash receipts shall be gross cash receipts less gross cash disbursements exclusive of the lessor's initial investment.

46. Any estimated residual value and all other important assumptions affecting estimated total net income from the lease shall be reviewed at least annually. If during the lease term the estimate of the residual value is determined to be excessive and the decline in the residual value is judged to be other than temporary or if the revision of another important assumption changes the estimated total net income from the lease, the rate of return and the allocation of income to positive investment years shall be recalculated from the inception of the lease following the method described in paragraph 44 and using the revised assumption. The accounts constituting the net investment balance shall be adjusted to conform to the recalculated balances, and the change in the net investment shall be recognized as a gain or loss in the year in which the assumption is changed. An upward adjustment of the estimated residual value shall not be made. The accounting prescribed in this paragraph is illustrated in Appendix E.

47. For purposes of presenting the investment in a leveraged lease in the lessor's balance sheet, the amount of related deferred taxes shall be presented separately (from the remainder of the net investment). In the income statement or the notes thereto, separate presentation (from each other) shall be made of pretax income from the leveraged lease, the tax effect of pretax income, and the amount of investment tax credit recognized as income during the period. When leveraged leasing is a significant part of the lessor's business activities in terms of revenue, net income, or assets, the components of the net investment balance in leveraged leases as set forth in paragraph 43 shall be disclosed in the footnotes to the financial statements. Appendix E contains an illustration of the balance sheet, income statement, and footnote presentation for a leveraged lease.

### Effective Date and Transition

48. The preceding paragraphs of this Statement shall be effective for leasing transactions and lease agreement revisions (see paragraph 9) entered into on or after January 1, 1977. However, leasing transactions or revisions of agreements consummated on or after January 1, 1977 pursuant to the terms of a commitment made prior to that date and renewal options exercised under agreements existing or committed prior to that date shall not be considered as leasing transactions or lease agreement revisions entered into after January 1, 1977 if such commitment is in writing, signed by the parties in interest to

the transaction, including the financing party,<sup>27</sup> if any, when specific financing is essential to the transaction, and specifically sets forth the principal terms of the transaction. The disclosures called for in the preceding paragraphs of this Statement shall be included in financial statements for calendar or fiscal years ending after December 31, 1976.<sup>28</sup> Earlier application of the preceding paragraphs of this Statement, including retroactive application to all leases regardless of when they were entered into or committed is encouraged but, until the effective date specified in paragraph 49, is not required. If applied retroactively, financial statements presented for prior periods shall be restated according to the provisions of paragraph 51.

<sup>27</sup> For purposes of this paragraph, the term "financing party" shall include an interim lender pending long-term financing.

<sup>28</sup> For an enterprise having a fiscal year of 52 or 53 weeks ending in the last seven days in December or the first seven days in January, references to December 31 in paragraphs 48-51 shall mean the date in December or January on which the fiscal year ends.

49. For purposes of financial statements for calendar or fiscal years beginning after December 31, 1980, paragraphs 1-47 of this Statement shall be applied retroactively, and any accompanying financial statements presented for prior periods shall be restated as may be required by the provisions of paragraph 51.

50. If paragraphs 1-47 are not applied initially on a retroactive basis, as permitted by paragraph 48, those leases existing or committed at December 31, 1976 shall be subject to the following provisions until such time as paragraphs 1-47 are applied retroactively to all leases.

a. For purposes of applying the presentation and disclosure requirements of this Statement applicable to lessees, those leases existing or committed at December 31, 1976 that are capitalized in accordance with the provisions of superseded *APB Opinion No. 5* shall be considered as capital leases, and those leases existing or committed at December 31, 1976 that are classified and accounted for as operating leases shall be considered as operating leases. For those leases that are classified and accounted for as operating leases but that meet the criteria of paragraph 7 for classification as capital leases, separate disclosure of the following information shall be made for purposes of financial statements for the year ending December 31, 1977 and for years ending thereafter:

i. The amounts of the asset and the liability that would have been included in the balance sheet had those leases been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for balance sheets as of December 31, 1976 and thereafter when such balance sheets are included in the financial statements referred to in paragraph 50(a) above.

ii. The effect on net income that would have resulted if those leases had been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for income statements for periods beginning after December 31, 1976 when such income statements are included in the aforementioned financial statements.

b. For purposes of applying the presentation and disclosure requirements of this Statement applicable to lessors, those leases existing or committed at December 31, 1976 that are accounted

for as sales, financing leases, and as operating leases in accordance with superseded *APB Opinions No. 7* and *27* shall be considered as sales-type leases, as direct financing leases, and as operating leases, respectively. (Refer to (c) below for provisions applicable to leveraged leases.) For those leases existing or committed at December 31, 1976 that are classified and accounted for as operating leases but that meet the criteria of paragraphs 7 and 8 for classification as direct financing leases or sales-type leases, separate disclosure of the following information shall be made for purposes of financial statements for the year ending December 31, 1977 and for years ending thereafter:

- i. The amount of the change in net worth that would have resulted had the leases been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for balance sheets as of December 31, 1976 and thereafter when such balance sheets are included in the foregoing financial statements referred to in paragraph 50(b) above.
  - ii. The effect on net income that would have resulted if the leases had been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for income statements for periods beginning after December 31, 1976 when such income statements are included in the aforementioned financial statements.
- c. For those leases that meet the criteria of paragraph 42 (leveraged leases) but that are accounted for other than as prescribed in paragraphs 1-47, separate disclosure of the following information shall be made for purposes of lessors' financial statements for the year ending December 31, 1977 and for years ending thereafter:
- i. The amounts of the net changes in total assets and in total liabilities that would have resulted had the leases been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for balance sheets as of December 31, 1976 and thereafter when such balance sheets are included in the financial statements referred to in paragraph 50(c) above.
  - ii. The effect on net income that would have resulted if the leases had been classified and accounted for in accordance with the provisions of paragraphs 1-47. This information shall also be disclosed for income statements for periods beginning after December 31, 1976 when such income statements are included in the aforementioned financial statements.

51. Paragraph 49 requires retroactive application of paragraphs 1-47 for purposes of financial statements for calendar or fiscal years beginning after December 31, 1980, and paragraph 48 encourages earlier retroactive application. If after retroactive application is adopted, financial statements for earlier periods and financial summaries or other data derived from them are presented, they shall be restated in accordance with the following requirements to conform to the provisions of paragraphs 1-47:

- a. Such restatements shall include the effects of leases that were in existence during the periods covered by the financial statements even if those leases are no longer in existence.
- b. Balance sheets presented as of December 31, 1976 and thereafter and income statements presented for periods beginning after December 31, 1976 and financial summaries and other data derived from those financial statements shall be restated to conform to the provisions of paragraphs 1-47.

- c. Balance sheets as of dates before December 31, 1976 and income statements for periods beginning before December 31, 1976 shall, when presented, be restated to conform to the provisions of paragraphs 1-47 for as many consecutive periods immediately preceding December 31, 1976 as is practicable. Summaries or other data presented based on such balance sheets and income statements shall be treated in like manner.
- d. The cumulative effect of applying paragraphs 1-47 on the retained earnings at the beginning of the earliest period restated shall be included in determining net income of that period (see paragraph 20 <sup>29</sup> of *APB Opinion No. 20*, "Accounting Changes").<sup>29</sup> The effect on net income of applying paragraphs 1-47 in the period in which the cumulative effect is included in determining net income shall be disclosed for that period, and the reason for not restating the prior periods presented shall be explained.

<sup>29</sup> Pro forma disclosures required by paragraphs 19(d) <sup>30</sup> and 21 <sup>31</sup> of *APB Opinion No. 20* are not applicable.

**The provisions of this Statement need not be applied to immaterial items.**

*This Statement was adopted by the affirmative votes of five members of the Financial Accounting Standards Board. Mr. Kirk dissented.*

Mr. Kirk dissents primarily because he does not believe that the front-ending of lease income required by paragraph 44 for leveraged leases versus the method of lease income recognition required by paragraph 18(b) for direct financing leases is justified by any significant economic (i.e., cash flow) differences between the two types of leases. The front-ending of leveraged lease income results from treating the related debt and deferred tax benefits (principally the latter) as valuation accounts, and Mr. Kirk believes that the treatment as valuation accounts is unwarranted.

The leasing business is a leveraged business. Many leases are partially financed by recourse debt; some leases are partially financed by nonrecourse debt. Mr. Kirk believes the cash inflows from the lessee and the outflows to the creditor can be similar whether the debt is recourse or nonrecourse, and he does not believe that a difference in the method of financing a lease should be a factor in determining the pattern of recognizing lease income (and interest expense) as is required by this Statement. Mr. Kirk also objects to the inconsistent classification of nonrecourse debt required by this Statement (i.e., if the lease meets the criteria of paragraph 42, the nonrecourse debt financing the lease is a valuation account and *not* a liability; if the lessor is the manufacturer of the leased asset or if the lease does not meet all the criteria of paragraph 42, the nonrecourse debt is a liability).

The amount and timing of the cash flow benefits resulting from the tax attributes of a leased asset are the same to the lessor whether he finances the asset with recourse debt, with nonrecourse debt, or with equity. A difference in the method of financing the lease should not, in the opinion of Mr. Kirk, result in a difference in accounting for deferred taxes. This Statement, however, requires that deferred income tax balances arising from tax timing differences be accounted for as a valuation account (for purposes of computing periodic lease income) only if (a) the lease is financed with *substantial* nonrecourse debt and (b) the lessor accounts for the benefit from the investment tax credit as a valuation account. The special treatment of these deferred tax benefits as valuation accounts results in a net investment that declines in the early years and rises during the later years; that result then requires the front-ending of lease income. Also, Mr. Kirk can see no reason why the method of accounting for the investment tax credit should determine the accounting for deferred income taxes and, therefore, the pattern of lease

income recognition.

Mr. Kirk also believes the treatment of deferred taxes and the required method of accounting for changes in assumptions (paragraph 46) result in the deferred taxes related to leveraged leases being accounted for by the *liability method*, which is not in conformity with the requirements of *APB Opinion No. 11*, "Accounting for Income Taxes [1]," and the accounting for deferred taxes related to other leases.

In order to avoid having (a) the method of financing, (b) the debt repayment schedule, and (c) the method of accounting for deferred tax benefits influence the pattern of recognition of lease income, interest expense, and initial direct costs (as is the case for those leases meeting the criteria of paragraph 42), Mr. Kirk believes it is necessary to use the ordinary financing lease method (paragraph 109(a) [2]) for all financing leases, including those financed with nonrecourse debt. However, in view of the present inconsistencies in accounting for nonrecourse debt, Mr. Kirk would not have dissented to a requirement that the three-party financing lease method (paragraph 109(b)) be used for financing leases financed with nonrecourse debt. Both methods avoid the inconsistent treatment of nonrecourse debt and the front-ending of lease income.

Mr. Kirk also dissents because he objects to the exemption in paragraph 28 that applies to certain facilities leased from governmental units because of special provisions *normally* present in those leases. Mr. Kirk believes the classification of all leases, regardless of the nature of the asset or lessor, should be determined by application of the criteria in paragraphs 7 and 8.

*Members of the Financial Accounting Standards Board:*

Marshall S. Armstrong, *Chairman*  
Oscar S. Gellein  
Donald J. Kirk  
Arthur L. Litke  
Robert E. Mays  
Robert T. Sprouse

[^ Top](#)

© 2004 Financial Accounting Standards Board  
© 2007 CCH All Rights Reserved.

# ATTACHMENT D

# GE Healthcare

imagination at work



Connecticut Orthopaedic Specialists  
2408 Whitney Avenue  
Hamden, Connecticut  
Attn Glenn F. Elia

January 23, 2007

This letter is in reference to the Pre-owned 1.0 Tesla MRI purchased by Connecticut Orthopaedic Specialists from GE Healthcare

1. The purchase price of 349K included, delivery including rigging , installation and training.
2. The check for \$5825 received from Connecticut orthopedic Specialists was used exclusively for the down payment and commitment for the MRI unit. The reason the amount was not equal to 10% as stated on the purchase agreement was because initially the system was going to be financed through General Electric Healthcare Finance. When a customer elects to finance through GEHFS, the deposit required is equal to 1 months payment of the proposed financing (\$5,825.00) and supercedes the payment terms of the purchase agreement
3. Subsequently, COS elected to finance the purchase of the MRI through a Master Lease with Popular Leasing Co, which was issued a resale certificate and did not pay sales tax on the unit. The unit was shipped to Connecticut Orthopaedic Specialists, P.C. on December 31, 2005 and was stored at that site until installation was completed in June 2006.

If you have any further questions, feel free to contact me

*P.K. Howlett*

GE Healthcare



Technologies

**P.K. Howlett**  
Northeast Account Manager  
Physician Office Market

T 800.257.2878 xt 7021964  
F 781.658.2638  
C 617.510.5227  
E [paul.howlett@med.ge.com](mailto:paul.howlett@med.ge.com)

# ATTACHMENT E



**POPULAR LEASING®**

POPULAR LEASING U.S.A., INC.  
15933 Clayton Road, Suite 200  
Ballwin, MO 63011  
Telephone: (800) 829-9411  
Fax: (800) 829-9443  
www.poplease.com

August 22, 2006

Mr. Michael J. Longo  
Connecticut Orthopaedic Specialists, P.C.  
2408 Whitney Avenue  
Hamden, CT 06518

Re: Lease No. 047494.02 - GE Healthcare


Dear Mr. Longo:

Your payments have been adjusted per the lease. The lease payment was based on the Treasury rate of 3.47%. At the time the lease commenced, the rate was 5.15% or a 1.68% increase. Your payment has been adjusted to \$7,466.55.

If you should have any questions regarding this lease, please do not hesitate to contact us. It has been our pleasure to serve you. Thank you for your business!

Very truly yours,

POPULAR LEASING U.S.A., INC.



Sean Stewart  
Documentation Specialist

ss  
Enclosures



**STATE OF CONNECTICUT**  
OFFICE OF HEALTH CARE ACCESS

M. JODI RELL  
GOVERNOR

CRISTINE A. VOGEL  
COMMISSIONER

March 21, 2007

Mr. Glenn Elia  
Chief Executive Officer  
Connecticut Orthopaedic Specialists, P.C.  
2408 Whitney Avenue  
Hamden, CT 06518

Re: Certificate of Need Determination, Report Number 06-30881-DTR  
Connecticut Orthopaedic Specialists, P.C.  
Acquisition of MRI unit for orthopedic practice setting

Dear Mr. Elia:

On December 11, 2006, the Office of Health Care Access ("OHCA") initiated a Certificate of Need ("CON") Determination process regarding Connecticut Orthopaedic Specialists, P.C.'s acquisition and operation of an MRI unit. Information was received by OHCA from Connecticut Orthopaedic Specialists, P.C. ("COS") on January 8, 2007 and on February 2, 2007. The CON determination process is being reviewed by OHCA under Report Number 06-30881-DTR. Please be advised that OHCA has reviewed this matter and makes the following findings:

1. COS is a Connecticut Professional Corporation. COS describes itself as a multi-specialty physician practice that specializes in the care and treatment of musculo-skeletal disease.
2. COS is operating an MRI unit at its Branford location. COS indicates that this unit was installed in May 2006 and in operation since June 30, 2006.
3. According to the COS website ([www.ct-ortho.com](http://www.ct-ortho.com)), COS operates the following locations:

<u>Orthopedic services</u>	<u>Office Based Orthopedic Surgery</u>	<u>MRI services</u>
2408 Whitney Avenue in Hamden 84 North Main Street in Branford 450 Boston Post Road in Guilford 258 Broad Street in Milford 330 Orchard Street in New Haven 330 Boston Post Road in Orange 1000 Yale Avenue in Wallingford	2200 Whitney Avenue Hamden	84 North Main Street Branford  2416 Whitney Avenue Hamden

4. COS currently employs 20 full time physicians, 17 orthopedic surgeons, 2 podiatrists and 1 physiatrist.
5. COS provides MRI services exclusively for patients who are being seen and treated by COS physicians. COS does not accept referrals for MRI services from physicians outside of the practice.
6. In June 2006, COS entered into an agreement with Dr. Joseph Gagliardi to provide on-site readings for the Branford MRI unit and to manage their Quality Assurance Program. According to the June 2006 agreement between COS and Dr. Gagliardi:
  - a. Dr. Gagliardi will professionally read and provide appropriate information and reports for MRI images taken at the Branford location.
  - b. COS will pay \$75.00 for reading and reporting on each MRI image and COS will reimburse Dr. Gagliardi a fixed amount for the transcription of any report.
  - c. Dr. Gagliardi is an independent contractor and not an employee of COS.
7. A quotation for lease financing from GE Healthcare Financial Services to COS was dated February 8, 2005 and accepted by COS on March 29, 2005. A purchase agreement for the Branford MRI unit was signed on March 29, 2005 and a deposit was made to GE Health Financial Services on March 29, 2005<sup>1</sup>.
8. According to the March 2005 purchase agreement for the MRI unit:
  - a. The unit is a "Gold Xtend 1.0T Preowned MR/OCate MR System"
  - b. The purchase price was \$349,000
  - c. The agreement became a binding purchase by COS on March 29, 2005.<sup>2</sup>
9. COS provided a copy of a cancelled check for the down payment on this unit in the amount of \$5,825 and dated April 7, 2005.
10. COS purchased a turn key building at 84 North Main Street in Branford for a total sum of \$5,671,049 in May 2006. The MRI suite is operated by COS within this new building at this location.
11. COS provided a letter from Jester Development Company to COS dated January 26, 2005, which provided a cost breakdown of the construction/fit out project for the Branford location. This letter indicates that the fit out costs for the MRI room are \$47,870.

<sup>1</sup> COS subsequently entered into a lease agreement with Popular Leasing USA, Inc. for this unit.

<sup>2</sup> The binding purchase was made prior to the July 1, 2005, the effective date of Public Act 05-93.

12. COS provided a letter from Jester Development Company to COS dated December 29, 2006 which breaks down the specific component costs included within the \$47,870 cost for fitting out the MRI space. Included within these costs is \$33,000 for "RF Room". The \$33,000 includes the cost of delivery and installation of the shielding necessary for the MRI unit.
13. Based on the material filed with OHCA by COS, the total capital costs incurred by COS specific to the acquisition and initial operation of the MRI unit are as follows:

MRI unit:	\$349,000*
Fit out of MRI space:	<u>\$ 47,870</u>
Total Capitalized Project Costs	\$396,870

\*includes delivery, rigging and installation of the unit as well as training costs.

14. COS pays \$447.99 of sales tax monthly to Popular Leasing. The sales tax is treated as an operating cost to COS pursuant to generally accepted accounting principals.
15. COS indicates that the first patient was scanned on this unit in Branford on June 30, 2006.<sup>3</sup> An imaging report from Dr. Gagliardi on that exam was provided as evidence of this date.
16. There was an extensive delay in project start for the MRI services (purchase agreement signed in March 2005, first patient scanned on June 30, 2006). COS indicates that, at the time that COS entered into the purchase agreement for the MRI, COS had already begun construction of the new medical office building in Branford, but that due to weather and other construction delays, the building was not ready until the spring of 2006. A certificate of occupancy was issued for the medical office building in April 2006.
17. COS further indicates that when the building was ready, GE was unable to immediately send the installation team out, as GE was occupied at another location in Connecticut. Installation finally began in early June 2006.
18. COS filed with OHCA a letter from GE HealthCare dated January 23, 2007, which verifies that the check for \$5,825 was used exclusively for the down payment and commitment for the MRI unit. This letter also verifies that the "unit was shipped to Connecticut Orthopaedic Specialists, P.C. on December 31, 2005 and was stored at that site until installation was completed in June 2006.

<sup>3</sup> The first patient was scanned on the new MRI unit prior to July 1, 2006.

Glenn Elia, Chief Executive Officer  
Connecticut Orthopaedic Specialists, P.C.  
CON Determination, Report No. 06-30881-DTR

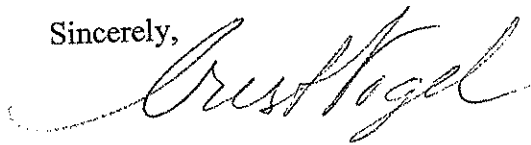
March 21, 2007  
Page 4 of 4

Based on the above findings, OHCA has determined that Connecticut Orthopaedic Specialists, P.C., which owns the MRI unit but is not the employer of the radiologist reading the scans, is a central service facility pursuant to Section 19a-630 of the Connecticut General Statutes and 19a-643-12 of OHCA's Regulations and therefore, is a health care facility or institution pursuant to Section 19a-638 of the Connecticut General Statutes ("C.G.S."). Therefore, the acquisition and operation of the MRI unit represents a new service for a health care facility or institution pursuant to Section 19a-638, CGS. Accordingly, OHCA has determined that COS is required to file a Certificate of Need application pursuant to Section 19a-638, C.G.S. The CON application will not be reviewed pursuant to Section 19a-639, C.G.S.

OHCA considers the submission of information received on February 2, 2007 as the completed Letter of Intent for this matter; therefore the Applicant may file a CON application with OHCA between April 2, 2007 and June 2, 2007. The CON application forms will be mailed to your attention separately.

Please contact Karen Roberts, Compliance Officer at (860) 418-7041 or Susan Cole, Director of Certification, Financial Analysis and Forecasting at (860) 418-7038 with any questions regarding this Certificate of Need Determination. Please contact Kimberly Martone, Supervisor of the Certificate of Need process at (860) 418-7029 with any questions regarding the Certificate of Need application process.

Sincerely,



Cristine A. Vogel  
Commissioner

CAV:kr

Copy: Rose McLellan License and Applications Supervisor, DPH, DHSR  
Stephen Cowherd, Esquire, Jeffers & Ireland (by fax)



STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: Mr. Glenn Elia CEO  
FAX: 203-281-1164  
AGENCY: CT Orthopedic Specialist P.C.  
FROM: Karen Roberts  
DATE: 3/21/07

NUMBER OF PAGES 5

INCLUDING COVER

Please see attached signed by Commissioner Vogel today.

PLEASE PHONE  
IF THERE ARE ANY TRANSMISSION PROBLEMS.

Phone: (860) 418-7001

Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O.Box 340308  
Hartford, CT 06134

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

TRANSMISSION OK

TX/RX NO	1906
RECIPIENT ADDRESS	912032811164
DESTINATION ID	
ST. TIME	03/21 14:23
TIME USE	01'04
PAGES SENT	5
RESULT	OK



STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: Mr. Glenn Elia CEO  
FAX: 203-281-1164  
AGENCY: CT Orthopedic Specialist P.C.  
FROM: Karen Roberts  
DATE: 3/21/07

NUMBER OF PAGES 5

INCLUDING COVER

*Please see attached signed by Commissioner  
Vogel today.*

**PLEASE PHONE  
IF THERE ARE ANY TRANSMISSION PROBLEMS.**

Phone: (860) 418-7001

Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O.Box 340308  
Hartford, CT 06134



STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: Attorney Stephen Cowherd  
FAX: 203-259-1070  
AGENCY: Jeffers + Ireland  
FROM: Karen Roberts  
DATE: 3/21/07

NUMBER OF PAGES 5

INCLUDING COVER

Please see attached signed by Commissioner Vogel today.

PLEASE PHONE  
IF THERE ARE ANY TRANSMISSION PROBLEMS.

Phone: (860) 418-7001

Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O. Box 340308  
Hartford, CT 06134

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

TRANSMISSION OK

TX/RX NO	1907
RECIPIENT ADDRESS	912032591070
DESTINATION ID	
ST. TIME	03/21 14:25
TIME USE	02'03
PAGES SENT	5
RESULT	OK



STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

FAX SHEET

TO: Attorney Stephen Cowherd  
FAX: 203-259-1070  
AGENCY: Jeffers + Ireland  
FROM: Karen Roberts  
DATE: 3/21/07

NUMBER OF PAGES 5

INCLUDING COVER

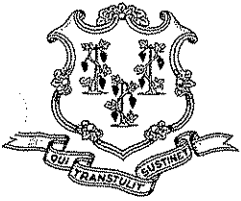
Please see attached signed by Commissioner Vogel today.

PLEASE PHONE  
IF THERE ARE ANY TRANSMISSION PROBLEMS.

Phone: (860) 418-7001

Fax: (860) 418-7053

410 Capitol Ave., MS#13HCA  
P.O. Box 340308  
Hartford, CT 06134



M. JODI RELL  
GOVERNOR

STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

CRISTINE A. VOGEL  
COMMISSIONER

March 28, 2007

Stephen Cowherd, Esq.  
Attorney  
Jeffers & Ireland, P.C.  
55 Wall Street  
Fairfield, CT 06824

Re: Letter of Intent, Docket Number 07-30881  
Connecticut Orthopedic Specialists, P.C.  
Acquisition and Operation of an MRI Unit in Branford  
Notice of Letter of Intent

Dear Attorney Cowherd:

On February 7, 2007, the Office of Health Care Access ("OHCA") received the Letter of Intent ("LOI") Form of Connecticut Orthopedic Specialists, P.C. ("Applicant") for Acquisition and Operation of an MRI Unit in Branford, at a total capital expenditure of \$397,870.

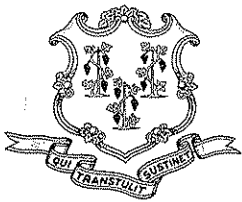
A notice to the public regarding OHCA's receipt of a LOI was published in *The New Haven Register* pursuant to Section 19a-638 of the Connecticut General Statutes. Enclosed for your information is a copy of the notice to the public.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kim R Martone".

Kimberly R. Martone  
Certificate of Need Supervisor

KRM:img



M. JODI RELL  
GOVERNOR

STATE OF CONNECTICUT  
OFFICE OF HEALTH CARE ACCESS

CRISTINE A. VOGEL  
COMMISSIONER

March 28, 2007

Requisition # HCA07-150  
FAX #: (203) 865-8360

The New Haven Register  
40 Sargent Street  
New Haven, CT 06531-0715

Gentlemen/Ladies:

Please make an insertion of the attached copy, in a single column space, set solid under legal notices, in the issue of your newspaper by no later than **Sunday, April 1, 2007**

Please provide the following **within 30 days** of publication:

- Proof of publication (copy of legal ad. acceptable) showing published date along with the invoice.

If there are any questions regarding this legal notice, please contact Laurie Greci at (860) 418-7001.

KINDLY RENDER BILL IN DUPLICATE ATTACHED TO THE TEAR SHEET.

Sincerely,

A handwritten signature in black ink, appearing to read "Kim R Martone", written over a horizontal line.

Kimberly R. Martone  
Certificate of Need Supervisor

Attachment

KRM:LKG:lmg

c: Sandy Salus, OHCA

**PLEASE INSERT THE FOLLOWING:**

Statute Reference:	19a-638
Applicant:	Connecticut Orthopedic Specialists, P.C.
Town:	Branford
Docket Number:	07-30881
Proposal:	Acquisition and Operation of an MRI Unit in Branford
Total Capital Expenditure:	\$397,870

The Applicant may file its Certificate of Need application between April 8, 2007 and June 7, 2007. Interested persons are invited to submit written comments to Cristine A. Vogel, Commissioner Office of Health Care Access, 410 Capitol Avenue, MS13HCA P.O. Box 340308 Hartford, CT 06134-0308.

The Letter of Intent is available for inspection at OHCA. A copy of the Letter of Intent or a copy of Certificate of Need Application, when filed, may be obtained from OHCA at the standard charge. The Certificate of Need application will be made available for inspection at OHCA, when it is submitted by the Applicant.

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

TRANSMISSION OK

TX/RX NO 1938  
RECIPIENT ADDRESS 912038658360  
DESTINATION ID  
ST. TIME 03/28 15:41  
TIME USE 00'22  
PAGES SENT 2  
RESULT OK



M. Jodi Rell  
GOVERNOR

**STATE OF CONNECTICUT**  
OFFICE OF HEALTH CARE ACCESS

CRISTINE A. VOGEL  
COMMISSIONER

March 28, 2007

Requisition # HCA07-150  
FAX #: (203) 865-8360

The New Haven Register  
40 Sargent Street  
New Haven, CT 06531-0715

Gentlemen/Ladies:

Please make an insertion of the attached copy, in a single column space, set solid under legal notices, in the issue of your newspaper by no later than **Sunday, April 1, 2007**

Please provide the following **within 30 days** of publication:

- Proof of publication (copy of legal ad. acceptable) showing published date along with the invoice.

If there are any questions regarding this legal notice, please contact Laurie Greci at (860) 418-7001.

**KINDLY RENDER BILL IN DUPLICATE ATTACHED TO THE TEAR SHEET.**

Sincerely,

A handwritten signature in cursive script, reading "Kim R Martone".

Kimberly R. Martone  
Certificate of Need Supervisor

Attachment

