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December 22, 2005

Sent Via U. S. Mail & Facsimile (310) 440-5537

Mr. Ron Goldie
Attorney at Law
11968 Brentridge Drive
Los Angeles, California 90049

RE: Proposed Sale of Sherman Oaks Hospital and Health Center

Dear Mr. Goldie:

The Attorney General hereby consents, pursuant to Corporations Code section 5914, to the sale of Sherman Oaks Hospital and Health Center to Prime A Investments, LLC and Prime Healthcare Services II, LLC, (both hereinafter referred to jointly as "Prime"), as set forth in the Notice filed on October 11, 2005. The Attorney General's consent is subject to the attached conditions, which are incorporated by reference herein.

The transaction approved by the Attorney General is set forth in the Acquisition Agreement dated September 21, 2005, executed by the parties. The Attorney General's consent is based upon the Application for Consent to Transfer Assets filed by Sherman Oaks Health System, which consists of three volumes, each volume dated September 30, 2005, October 1, 2005 and October 2, 2005, respectively. We also considered the healthcare impact report prepared by Medical Development Specialists, Inc. and written and oral comments provided to our office by members of the public or other government agencies.

Corporations Code section 5914 and section 999.5, subdivision (f), of title 11 of the California Code of Regulations set forth factors that the Attorney General must consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation or entity. The Attorney General has reached the following conclusions regarding these factors:

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- (1) The terms and conditions of the proposed transaction are fair and reasonable to Sherman Oaks Health System.
- (2) The transaction will not result in private inurement to any private person or entity.
- (3) Sherman Oaks Health System and its affiliates exercised due diligence before making their decision to sell the facility to Prime. The proposed transaction is at fair market value.
- (4) The parties to the proposed transaction have not manipulated the market value of the property in a manner that causes the value of the assets to decrease.
- (5) The proceeds from the proposed transaction will be used for purposes consistent with the charitable purposes of Sherman Oaks Health System.
- (6) The proposed transaction will not have a significant anti-competitive effect on healthcare services in the relevant geographic market.
- (7) Sufficient information has been provided to the Attorney General for an adequate evaluation of the transaction and its effects on the public.
- (8) The proposed transaction, as conditioned, will not have any immediate adverse effect on the availability or accessibility of health care services to the affected community.
- (9) The proposed transaction, as conditioned, is in the public interest.

Thank you for your cooperation and that of your client and the purchaser throughout the review process.

Sincerely,

JEFFERY M. OGATA
Deputy Attorney General

For BILL LOCKYER
Attorney General

JMO:

Attachment

cc: All Interested Parties

Conditions for Transaction Approval by the Attorney General
Sherman Oaks Hospital and Health Center
December 29, 2005

1. For the purposes of these conditions and unless the context indicates otherwise, the term "Buyer" shall mean Prime A Investments, LLC, a Delaware Corporation, and Prime Healthcare Services II, LLC, a Delaware Corporation, the proposed purchaser of Sherman Oaks Hospital and Medical Center, as set forth in the Acquisition Agreement dated September 21, 2005. These conditions apply to any entity owned by the Buyer that subsequently becomes the owner and/or licensed operator of Sherman Oaks Hospital and Medical Center, any future entity who purchases Sherman Oaks Hospital and Medical Center from the Buyer, and any entity owned by a future buyer that subsequently becomes the owner and/or licensed operator of Sherman Oaks Hospital and Medical Center.
2. The Buyer shall fulfill the terms and conditions of the Acquisition Agreement dated September 21, 2005 (hereafter "Agreement"). All parties shall notify the Attorney General in writing of any proposed material modifications of the Agreement. Such notification shall be provided at least 30 days prior to such modification taking effect to allow the Attorney General to consider whether the proposed modification affects the factors set forth in Corporations Code section 5917.
3. For at least five years from the transaction closing date, the Buyer shall continue to operate the Sherman Oaks Hospital and Health Center as a general acute care hospital and maintain emergency room capacity and services at not less than the licensed service levels that were in effect on the date the Agreement was executed (September 21, 2005).
4. For at least five years from the transaction closing date, the Buyer shall maintain the Burn Center at not less than the licensed service levels that were in effect on September 21, 2005.
5. For at least five years from the transaction closing date, the Buyer shall utilize the Sherman Oaks Hospital Foundation's Board of Directors ("Foundation"), which is made up of medical, business and other community representatives, as an advisory review body prior to initiating any changes to community benefit programs or charity care policies.
6. For at least five years from the transaction closing date, the Buyer shall annually expend not less than \$1.2 million in charity care costs (not charges). The amount of any annual shortfall in charity care shall be contributed to the Foundation. The required annual minimum charity care cost expenditure amount shall be inflated at the end of each fiscal year from the transaction closing date by using the "All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area" as published by

the U.S. Bureau of Labor Statistics. The Buyer shall use substantially the same charity care policies that were in effect on September 21, 2005, which shall include procedures to advise patients of the availability of charity care services and to qualify them to receive such services. The definition and methodology for calculating charity care costs shall be consistent with the definitions and methodology established by the State of California's Office of Statewide Health Planning and Development.

7. For at least five years from the transaction closing date, the Buyer shall continue to annually expend an average of at least \$562,000 in community benefit services in substantially similar form as provided by Sherman Oaks Health System, including continued support for the Specialized Ambulatory Geriatric Evaluation (SAGE) program. Community benefit commitments shall be decided upon after consultation with the Foundation.

8. Within six months from the transaction closing date, the Buyer shall conduct a more detailed evaluation of the community need and cost/benefit of providing the gero-psychiatric services and submit the evaluation to the Foundation and the Attorney General's office before making a final decision about the continuation of this service. The Buyer shall operate the gero-psychiatric unit until it submits the evaluation to the Attorney General's office.

9. Within three years of the transaction closing date, the Buyer shall make at least \$6 million in capital expenditures at Sherman Oaks Hospital and Health Center for expansion of the emergency department, to add telemetry and imaging equipment, and for other capital equipment and improvements.

10. Within 120 days after the end of each year for five years from the transaction closing date, the Buyer shall submit to the Attorney General a report describing in detail its compliance with each condition set forth herein for the prior calendar year. The Chief Executive Officer of the Buyer, or his/her designated agent, shall verify under penalty of perjury that the report is true and correct.

11. At the request of the Attorney General, Sherman Oaks Health System and the Buyer shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with the terms and conditions of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the public interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

12. The Attorney General reserves the right to enforce each and every condition set forth herein to the fullest extent provided by law.